

IMPACT

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How CAMICO's Claims Experience Works for You

The CAMICO Claims philosophy goes back to the company's founding principles: help CPAs proactively address the costly risk management problems they face, and encourage policyholders to report problems early, before they become big problems.

The conventional insurance company approach is to discourage policyholders from reporting problems by providing premium credits for "claims-free status," thereby encouraging policyholders to handle potential claims on their own – a dangerous practice with potentially disastrous financial and reputational consequences for a CPA firm.

CAMICO has always taken the opposite approach: Encourage policyholders to report early so that disputes and potential claims have a better chance of being resolved early, enabling the firm to avoid time-consuming troubles and remain focused on servicing their clients.

CAMICO was the first insurance company to devote an entire department to Loss Prevention, in addition to a Claims department, to provide the best protection program for CPAs. CAMICO's Claims and Loss Prevention departments continue to work in tandem with policyholders to find new ways to help CPAs avoid disputes and better service clients.

Consider the following statistics:

- CAMICO's Claims department handles about **2,000** calls each year on new matters such as subpoenas, regulatory requests for information, potential claims, and claims.
- The Loss Prevention department handles some **7,500** calls each year from CPAs seeking expert guidance and opinions on problems, questions and best practices. About **1/3** of the calls received by CAMICO concern issues that could become claims.
- The Claims department keeps about **75%** of potential claims from becoming actual claims. To date, Claims specialists have managed more than **15,000** incidents that could have led to claims.
- **100%** of the money spent on potential claims, such as attorneys' and consultants' fees, is absorbed by CAMICO and not charged against the deductible or policy limit – a benefit to policyholders.
- CAMICO believes so strongly in the early reporting of potential claims that it will reduce a deductible by **50%** (up to **\$50,000**) during the policy period in which the potential claim becomes known, or for use of formal mediation to attempt to resolve a claim.

If the potential claim is not reported on time, CAMICO has "**Continuity of Coverage for Potential Claims**," which provides broader protection for potential claims known to an insured while coverage is consecutively renewed with the CAMICO program.

The following claims scenarios have been drawn from CAMICO's claims files to illustrate some of the dangers and pitfalls, and how to avoid them.

The ‘Classic’ Claims Scenario

This scenario has recurred many times over the years, yet CPAs often can’t believe that it is happening to them. The services rendered were so “low level” (e.g., bookkeeping, write-up engagements), that it is hard to believe there is any liability exposure for embezzlement or fraud.

Here’s how the scenario usually unfolds:

The client is a small business owner too busy running the business to supervise the bookkeeping and banking activities. On top of that, there aren’t enough employees to justify segregating the receipt and disbursement functions.

The duties of receiving and disbursing funds and reconciling the bank accounts are all handled by one trusted employee who uses an accounting software program to stay on top of financial activity. The program enables one person to control the business’s funds and bank accounts, thereby facilitating the perpetration of fraud.

The client engages a CPA to perform services that do not include any procedures designed to discover embezzlements, defalcations, or other irregularities. After any number of years have elapsed with the CPA rendering such services, the client discovers an embezzlement by the trusted employee and is extremely disappointed that the CPA did not uncover the fraud as part of the services rendered.

The longer the CPA has been performing services for the client, the more outraged the client is that the CPA didn’t identify the fraud. The typical jury expects CPAs who have serviced a small business client for five years to have a profound understanding of the client’s business, regardless of the services performed.

What Claims Experience Has Taught Us

CAMICO’s claims experience and jury studies show that most jurors will agree with a client’s expectation that the CPA should have detected fraud, especially after about five years of services. Client, jury and public expectations of CPAs have increased over the years to the point where CPAs are expected to: 1) always detect fraud; and 2) advise and warn clients about their fraud exposures.

The expectation to always detect fraud can be extremely difficult to meet, but the expectation to advise and warn is much less difficult. By advising and warning clients of their defalcation exposures, CPAs can minimize liability stemming from the expectation to detect fraud.

Advice to clients about their defalcation exposures is best provided in an advisory letter that: 1) warns about the general risks; 2) suggests steps clients can take to reduce the risks; and 3) offers CPA services to help address the risks. An informed client is better able to avoid defalcation. If a defalcation is later uncovered, the CPA has documented evidence of having warned the client and offered a service to address the risk. Clients should also be notified of “loose ends” such as sloppy bookkeeping and late bank reconciliations.

Examples of internal control warning letters can be found in the **Fraud Resource Center** on the CAMICO Members-only Site under “Risk Management Tools and Engagement Letters.”

Engagement letter language should include a client acknowledgment that they understand and agree that the CPA's services are limited in scope and not designed to detect employee embezzlement or other fraudulent activities involving the client's bank accounts.

Limitation of liability clauses can also be useful for containing liability. CAMICO strongly encourages CPAs to review such clauses with a risk advisor or legal counsel, as appropriate, for possible modifications. Also, it is important to note that the U.S. Securities and Exchange Commission (SEC) forbids the use of indemnity clauses in engagement letters with public companies.

Useful sample engagement letter text can be found under "Summary of Engagement Letter Components" in the **Engagement Letter Resource Center** on the CAMICO Members-only Site. Sample letter templates for a wide range of services and engagements are available in the Engagement Letter Resource Center.

The 'Unusual' Claims Scenario

The CAMICO Claims department often handles calls from policyholders reporting potential and actual claims involving a wide variety of problems and conflicts, many of them including illegal or unethical conduct. Examples include:

- *Business or limited partnerships in which a partner or partners are stealing from other partner(s).* In one situation, two partners were embezzling funds from their business, and when the thefts were eventually uncovered, both partners sued the CPA for not detecting and reporting their embezzlements.
- *CPAs caught in the middle of situations involving confidentiality considerations and conflicts of interest* between two partners (or spouses). Claims experience and jury standards demand that CPAs be the "watchdog" and "do the right thing" – not an easy task in many cases. CAMICO Claims and Loss Prevention specialists help policyholders navigate these difficult situations.
- *CPA firm staff misusing or misappropriating client funds entrusted to the firm* in bill-paying, business management, or executor/trustee engagements. CPAs are viewed by the public (and jurors) as experts in tracking financial activity and establishing appropriate internal controls. Firms not meeting that expectation often find themselves embroiled in litigation.
- *Sexual harassment, discrimination, wrongful termination and other employment practices claims.* CAMICO has handled these claims since 1994, resulting in 23 years of employment practices Claims and Loss Prevention experience. Policyholders with Employment Practices Liability insurance coverage have access to advisory and consulting services and resources. Issues surrounding employee use of social media are also addressed.

Cannabis business clients are another example of emerging risk exposures and issues that CAMICO has addressed. Since the U.S. federal government considers the marijuana business to be illegal, the business presents special issues in those states where the state government considers it to be legal. The federal government's policy has been to not target marijuana distributors unless they violate both federal and state laws, which means distributors not complying with state laws may face federal enforcement actions.

Federal income tax treatment is affected by marijuana being a controlled substance under federal law. Internal Revenue Code § 280E denies a deduction or credit for amounts paid or incurred in any trade or business selling, distributing or trafficking in marijuana. However, a marijuana business may reduce gross receipts by the cost of goods sold in order to determine gross income. Also, cannabis businesses that engage in other activities that do not involve the sale of marijuana may be able to take all otherwise allowable deductions for these other activities. This creates pressure on the client to allocate expenses to cost of goods sold or these other activities. That pressure can lead to taking tax positions that the Internal Revenue Service may later contest, resulting in assessments of additional tax plus interest and penalties. CPAs must therefore document in an engagement letter that the firm will assume no liability for any such additional penalties or assessments.

A sample engagement letter template (“Cannabis Client Tax Engagement Letter”) can be found on the **CAMICO Members-Only Site** in the Engagement Letter Resource Center under “Tax Letters” and “Other Tax Letters.”

Accounting treatment for marijuana business clients also requires special consideration. Transparency in financial reporting is the best approach from GAAS, SSARS, financial reporting framework (e.g., U.S. GAAP) and risk management perspectives. Appropriate disclosures of all aspects of the business need to be made to add clarity and reduce CPA firm risk. Disengagement is recommended if the client refuses to provide written representations sought by the CPA.

These are just a few examples of the many issues CAMICO has addressed over its 31 years of helping CPAs manage their risk exposures. CAMICO’s Loss Prevention department provides policyholders with guidance on these and any other CPA issues and questions, and the Claims department handles potential claims, claims, subpoenas, regulatory requests for information, and all other claims-related questions.

As always, policyholders are encouraged to call CAMICO at 1.800.652.1772, or email lp@camico.com with any questions or concerns.

Video: 3 Tips on How to Reduce Your Liability

CAMICO Vice President of Claims Ken Wigboldy offers key advice from 31 years of CPA claims experience. Please click the link below to watch the video on CAMICO's YouTube channel.

<https://youtu.be/nXji9AeGnic>

Loss Prevention Tips for Tax Season

CAMICO has been developing solutions for CPA professional liability problems for more than 31 years, and tax season has always been a major part of that activity. The use of engagement letters for non-audit work, including tax engagements, was pioneered by CAMICO as an effective way to help document the CPA's understanding with the client.

CAMICO recommends engagement letters for every engagement, and several other loss prevention practices are often just as valuable, such as follow-up documentation, fraud prevention, internal control advisory letters, client assessment, ongoing client evaluation, and disengagement.

The following are brief descriptions of each of these areas and some of the many online resources available to CAMICO policyholders via the Members-only Site to help manage risk exposures.

Engagement Letters

The first step in establishing effective communications with the client, managing client expectations, and avoiding misunderstandings and disappointments, is the engagement letter. In many respects it is a written contract between the CPA and the client, and as such it should clarify the services that the CPA will render, describe the scope and limitations of the engagement, and allocate, in limiting language, your responsibilities and the responsibilities of the client. In the event of a dispute, the engagement letter will serve as documented evidence of the duties your firm was to perform.

Best practices include always trying to get the client's signature – an unsigned engagement letter may be interpreted by the courts as a non-agreement unless you have embedded unilateral language in your engagement letter. Although not as powerful as a client signature would be, unilateral clauses do afford some protection to the CPA. If additional services are going to be provided by the CPA, or the services cross into a different area (e.g., from the tax ramifications of a sale, to a business valuation), a new engagement letter may be needed.

CAMICO's guidance on engagement letters is found on the CAMICO Members-only Site (log-in at www.camico.com) in the **Engagement Letter Resource Center**. Under the "Getting Started" tab is an "Engagement Letter Checklist" on what you should consider, and not consider, in a letter. In the same location, a "Summary of Engagement Letter Components," provides sample text for various parts of an engagement letter, covering issues such as record retention policies, fee structures, stop-work clauses, outsourcing, mediation and arbitration.

Sample tax letter templates for Individual, Partnership, Corporate, Estate/Trust, and other tax engagement letters are also found in the Engagement Letter Resource Center.

Documentation

The engagement letter is often just the first in a series of documents needed in an engagement. For example:

- All significant client meetings should be documented with a written description of the subjects discussed at the meeting. This will help ensure that both you and the client are proceeding with the same expectations and assumptions.
- “Informed consent” letters should be used in certain situations, such as S corporation elections or estate tax planning. The letters help clarify that the CPA advised and informed the client, and the client agreed with the advice. Without this letter, it is easier for claimants to make it appear that the CPA made the decisions on behalf of the client. The letter will help prevent the client from successfully asserting later that your firm is responsible for unexpected events and for less-than-optimal results.
- Written confirmation should be obtained for the amounts used for calculations, such as those used with tax extension payments. The client can review the information and change any of it that is incorrect. The client can also send the data via email or fax, which becomes part of the records, support and documentation—always critical in the event of a dispute.

More documentation guidance and tips can be found on the CAMICO Members-only Site under Knowledge Tree, Risk Management, **Documentation Issues**.

Fraud/Internal Control

CPAs are not required to verify certain types of information, but if something looks irregular, a prudent course of action is to investigate, document, communicate, and get it right. Client and public expectations of CPAs have increased in recent years to the point where CPAs are expected to: 1) always detect fraud, and 2) advise and warn clients about their exposures to fraud.

The public expectation that CPAs should always detect fraud can be extremely difficult to meet, but the expectation to advise and warn is much less difficult. By advising and warning clients of their defalcation exposures, CPAs are better serving clients and minimizing liability stemming from the expectation to detect fraud.

Use an internal control advisory letter to advise and warn clients about their exposures to defalcation. The letter: 1) warns about general risks, 2) suggests steps clients can take to reduce risks, and 3) offers annual CPA services to address fraud risks. Examples can be found in the **Fraud Resource Center** on the CAMICO Members-only Site under “Risk Management Tools and Engagement Letters.”

Client Assessment/Disengagement

Firms should evaluate all potential new clients and re-evaluate all current clients on a regular basis, at least annually. This enables the firm to better monitor clients, consider any changes that might affect the professional relationship, and avoid situations that could escalate into crises. Firms can also stipulate in their engagement letters that the engagement is not binding until client acceptance procedures have been completed.

A “Client Assessment Checklist” can be accessed in the **Engagement Letter Resource Center** on the CAMICO Members-only Site. The checklist also provides guidance on how to avoid fee collection problems and how to use mediation and arbitration clauses effectively. The “Ongoing Evaluation and

Disengagement Checklist” is also in the Engagement Letter Resource Center and helps firms identify problem clients and other issues that may call for disengagement.

Early Reporting Incentives

Contact CAMICO as soon as an issue with a client or engagement comes up. Taking advantage of CAMICO’s Loss Prevention services will help you avoid costly mistakes, problems, disputes and claims. Reporting a potential claim early also enables CAMICO to work on an early resolution, which helps the firm to get back to business as usual.

CAMICO believes so strongly in its proactive philosophy that the company offers a **deductible reduction of 50 percent, up to \$50,000**, for the early reporting of a potential claim during the policy period in which it becomes known, or for use of formal mediation to attempt to resolve a claim.

CPAs are often so busy that they don’t recognize or acknowledge a potential claim as it is developing. The CAMICO policy has addressed this problem with “**Continuity of Coverage for Potential Claims**,” which provides broader protection for potential claims known to an insured while coverage is consecutively renewed with the CAMICO program. The deductible reduction offered by CAMICO for early reporting will not apply in such scenarios, but policyholders who qualify will still have full coverage.

Policyholders can always contact the CAMICO Loss Prevention department for more advice and guidance. Call 1.800.652.1772, or email lp@camico.com.

The Cost of Free Speech

by Emily Franchi

Can employees really say what they want about what they believe when they're at work? After all, it is a free country, right? The answer is yes. And no.

Many employees believe their right to free speech or freedom of expression under the First Amendment protects them from adverse employment actions taken against them in the workplace when they speak their mind about personal beliefs (such as religious beliefs, political beliefs, etc.). While the First Amendment does protect a person's freedom of speech, the protection is to prevent the government from suppressing a person's right of speech or restricting what a person can or cannot say in a public forum. Unless the government is the employee's employer, the First Amendment does not apply the same way in a work environment.

An employer does have the right to ask employees to focus on their work while in the office and to refrain from discussion that could lead to an emotionally charged conversation. Employers should be careful, though, to apply the rules uniformly and not favor one employee and his/her opinion or beliefs over another. Discrimination based on religion or political affiliation is illegal, but an employer always has the right to request that employees refrain from discussion that is not appropriate in the workplace. Employers also have the right to require employees to remain civil toward each other, and conversations about politics or religion can often spark an argument or a heated discussion.

NLRA-Protected Activity

Employees are free to discuss wages, working hours and conditions with co-workers, as those types of conversations are considered protected activity, not under the First Amendment, but rather under the National Labor Relations Act (NLRA). Employees should be able to participate in such conversations without the fear of retaliation, provided they are not bullying, harassing or discriminating against one another in the course of their discussions, and they are engaging in "concerted activities" for their "mutual aid or protection." Employees participating in these conversations should be mindful to avoid suggesting that they are speaking on behalf of others.

Imagine a situation in which an employee found a spreadsheet on the copier with information relating to post tax season bonus payments. Understandably, he was upset when he realized that his co-worker, who had far less seniority and had consistently not worked the extra hours that season, earned a substantially higher bonus. He then shared the confidential payroll information with others in his department and then took to his Facebook page, claiming that the firm had unfair pay practices and that the partners had allowed the higher bonus because his co-worker had engaged in an affair with one of the married partners. In addition to his post, he contacted several of the partners in the firm via LinkedIn and made physical threats against them.

Lastly, he shared the information on the firm's Facebook page. While this incident ultimately resulted in the firm revising its bonus payout criteria, the employee was terminated. He was not terminated for raising the issue, but rather for how he went about it, for his threatening comments via LinkedIn, and for

making unauthorized edits to the firm's Facebook page when he did not have administrator rights. Had he stopped at sharing the information with other employees and then approached management as a group in a calm and rational way, his actions would have been protected under the NLRA.

The Google Case: Protected or Harmful Speech?

Just this past summer, an engineer for Google was fired for expressing his beliefs about women in the tech world. After a 3,000-word manifesto titled "Google's Ideological Echo Chamber" was posted online, Google's response clearly expressed that the opinions of the employee did not mirror those of the company and were completely against the ideology supported by Google. Regardless, the question remains: did the employee have the right to share his beliefs with the entire organization?

There are those who believe that the manifesto highlighted the concerns the employee had about Google's diversity program, which he felt resulted in exclusion versus inclusion and ultimately reverse discrimination. Let's not forget that the NLRA provides protection for employees participating in conversations about wages, hours and working conditions, provided the conversations are for "mutual aid or protection." Certainly, in this case, one could argue that this employee's concerns about reverse discrimination could very well fall into that category.

Ultimately, the tech giant terminated him for crossing the line by advancing harmful gender stereotypes. He has threatened legal action, claiming that he has a right to share his opinions, especially given the context in which he expressed those opinions. We will be watching to see how this potential case plays out and what we can learn from that outcome.

Employers will always have the burden of encouraging a workplace of diversity and openness while maintaining civility and sustaining productivity. Staying ahead of the game is critical. Creating policies that outline boundaries is paramount, and more importantly, it's imperative that management "walk the talk" and model appropriate workplace behavior.

Emily Franchi is a loss prevention specialist for employment practices with CAMICO (www.camico.com). She provides CAMICO firms that have Employment Practices Liability coverage with support on a variety of human resources management issues, focusing on employee relations and legislative compliance for the workplace. Franchi works with firms to reduce exposure to potential employment practices claims, and she provides education and assistance in creating professional work environments.

Risk Management Tips for Navigating the New Going Concern Landscape

By Duncan Will, CPA/ABV/CFF, CFE

In August 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) 2014-15 *Presentation of Financial Statements – Going Concern (Subtopic 205-40): Disclosure Uncertainties about an Entity's Ability to Continue as a Going Concern*. On February 22, 2017, the AICPA's Auditing Standards Board issued Statement on Auditing Standards (SAS) 132, *The Auditor's Consideration of an Entity's Ability to Continue as a Going Concern*. In November, I informed a policyholder of this soon-to-be-released article and was asked, "Why? People should have already read those standards." My answer: "Because many haven't read the standards, and the professional standards don't address the 'jury standards' or risk management."

These landmark standards alter the financial statement landscape. The standards provide the minimum requirements that accountants and their clients' management must follow when there is doubt about the entity's ability to continue as a going concern. Regrettably, the FASB only addresses U.S. GAAP and the ASU-only audits. Accountants must understand these standards but must also adhere to the "jury standards" implicit in the standards. This article covers the standards' risk management requirements, which expand the scope of the standards to other financial reporting frameworks and financial statement services (reviews, compilations and preparations of financial statements).

Several years ago, I attended a presentation at which a former member and a current member of FASB spoke. My suggestion that the FASB should set standards mandating that an entity's management evaluate whether substantial doubt exists regarding the entity's ability to continue as a going concern was rebuffed at the presentation. The FASB has since come around.

Many accountants have been critical of standard-setting bodies for inertia, inaction or actions counter to their interests. We at CAMICO applaud the FASB's change of mind (issuance of ASU 2014-15) and its decision to set standards mandating that an entity's management consider whether the entity has the ability to continue as a going concern, and the steps management must then take to assess the adequacy of the response to that doubt. We were heartened by the FASB codification of the going concern concept into U.S. GAAP and welcome the steps taken by the Auditing Standards Board (SAS 132).

Unfortunately, there remains a gap in the guidance and knowledge regarding the standards' implications for CPAs, and minimal understanding or consensus regarding the best practices for implementing the new auditing standard. There's also a void regarding the implications for review, compilation and preparation of financial statement engagements. The AICPA's Accounting and Review Services Committee (ARSC) issued an exposure draft of a proposed Statement on Standards for Accounting and Review Services (SSARS), *Omnibus Statement on Standards for Accounting and Review Services – 2018* for public comment on September 14. The exposure draft is available at <https://www.aicpa.org/content/dam/aicpa/research/exposuredrafts/compilationreview/20170914a-ed-omnibus-ssars-2018.pdf>, with comments requested by December 14, 2017. The exposure draft provides guidance for review engagements, but is silent regarding compilation (AR-C 80) and preparation (AR-C 70) engagements. The ARSC also recently released an updated version of its Guide, the AICPA's *Preparation, Compilation, and Review Engagements Guide*. It too does not adequately address the accountant's response when there is doubt about their client's ability to continue as a going concern.

This article is intended to either alert you or refresh your memory regarding U.S. GAAP guidance, GAAS guidance, and extant and proposed SSARS pronouncements. It also offers some recommendations CAMICO considers best practices for CPAs in public practice when performing financial statement reporting or preparation services and considering their client's ability to continue as a going concern.

Many are unaware that the AICPA's standard-setting bodies (i.e., the ASB and ARSC) consciously choose not to offer or address risk management when setting standards. This article will refer to AICPA pronouncements and guidance, and supplement them with risk management guidance not found within the standards.

Because of the extensive changes to the going concern landscape, we begin with an explanation of what has changed.

Prior to ASU 2014-15, the FASB had not provided accounting standards regarding going concern. The FASB had abdicated this responsibility and had allowed U.S. auditing standards and federal securities law to establish requirements that auditors evaluate whether there is substantial doubt about an entity's ability to continue as a going concern for a "reasonable period of time" not to exceed one year from the balance sheet date. Historically, the going concern presumption (that an entity would continue as a going concern) is the basis for preparing financial statements unless or until its liquidation is imminent. CPAs had been forced to look exclusively to the auditing standards to identify how going concern issues were to be handled. The SSARSs eventually added guidance regarding how CPAs performing compilations and reviews should address doubts about their clients' ability to continue as a going concern, but the SSARSs offers no advice for accountants performing AR-C 70 preparation of financial statement engagements. The guidance regarding the going concern issue within the clarified SSARSs (AR-C 70 and AR-C 80) is considerably less than what was present prior to the SSARSs clarification effective for unaudited financial statements for periods ending after December 14, 2015. What guidance existed didn't vanish. Instead, it was relocated and can now be found in the AICPA's *Preparation, Compilation, and Review Engagements Guide*. The Guide is one of the many AICPA interpretive publications that accountants are expected to consider. The Guide houses a wealth of information for accountants performing SSARSs engagements. Sadly, many accountants are unaware of the requirement to read the Guide nor of the wealth of information the Guide contains.

The Guide prohibits "accountants from preparing financial statements that omit substantially all disclosures required by the applicable financial reporting framework if the accountant becomes aware that the omission of substantially all disclosures was undertaken with the intention of misleading users of such financial statements. For example, management may direct that financial statements be prepared that omit substantially all disclosures because management does not want a user of the financial statements to be aware of negative information, such as a going concern ... If the accountant is aware of management's intention to mislead users of the financial statements, the accountant is precluded from preparing the financial statements." (*Emphasis added*)¹

Awareness of intent is difficult (if not impossible) to identify. Also, CAMICO doesn't believe that intent should be the lone driver. CAMICO encourages CPAs to expand the guidance to include and address any instances in which the CPA believes that readers may intentionally or unintentionally be misled. Intent is problematic but should not be decisive in the reporting, presentation or disclosure of any entity's financial results. If the financial statements would likely mislead a user regarding the entity's ability to

¹ AICPA Preparation, Compilation and Review Engagements Guide, ¶3.41.

continue as a going concern, make the reporting, presentation or disclosures you deem appropriate to minimize the likelihood that a user could be misled or harmed by relying on the financial statements.

The Guide points out that AR-C section 80 does not preclude accountants from including an emphasis-of-matter or an other-matter paragraph in their compilation reports. CAMICO encourages CPAs to use emphasis-of-matter paragraphs to highlight matters already disclosed in the financial statements or accompanying footnotes. Many readers of financial statement reports focus on whether the statements are unmodified (in audits these used to be called “clean opinions”) and assume the financial statements don’t include matters of concern when unmodified. Emphasis-of-matter paragraphs are not permitted when the matter being emphasized isn’t disclosed elsewhere in the financial statements. Emphasis-of-matter paragraphs are an ideal method to highlight and draw attention to going concern issues.

However, AR-C 70 and AR-C 80 permit accountants to prepare or compile financial statements that omit substantially all disclosures when client management so elects. The standards don’t refer to “no disclosure” financial statements. Instead, they refer to financial statements with “substantially all disclosures omitted”.² CPAs have commonly shortened the phrase to “no disclosure” financial statements because they rarely (if ever) choose to add disclosures when management has made this election. Many CPAs are often reluctant to add disclosures in such instances, fearing that doing so would expose them to additional risk were a user of the financial statements to later suggest that, had certain other disclosures been present, they would have acted differently and not have suffered a loss.

CAMICO’s more than 30 years of experience in defending CPAs does not support this position. Our claims files don’t include a loss sustained because of a user of the financial statements alleging that the CPA was negligent in not including other disclosures when they have disclosed doubt about an entity’s ability to continue as a going concern (when management elected to omit substantially all disclosures). The reciprocal argument is certainly not valid. CPAs have been sued, and some have lost, when they neglected to modify their report, or the underlying financial statements did not disclose the economic challenges faced by the client. So, add an appropriate disclosure and an emphasis of matter (if a compilation) if you perceive that substantial doubt may exist regarding the ability of an entity to continue as a going concern for a year from the date the financial statements are issued (or available to be issued).

The multiple responsibilities of AICPA membership are significant stressors for CPAs in public practice. Most states have incorporated much of the AICPA’s Professional Code in their own standards, so not being an AICPA member doesn’t exempt the accountant from the requirements of membership. The preamble to the profession’s code of conduct points out that “[m]embership in the American Institute of Certified Public Accountants is voluntary. By accepting membership, a member assumes an obligation of self-discipline above and beyond the requirements of laws and regulations. ... These Principles of the Code of Professional Conduct of the American Institute of Certified Public Accountants express the profession’s recognition of its responsibilities to the public, to clients, and to colleagues. They guide members in the performance of their professional responsibilities and express the basic tenets of ethical and professional conduct. The Principles call for an unswerving commitment to honorable behavior, even at the sacrifice of personal advantage.” (*emphasis added*)³

² AR-C 70, ¶.20-.21; AR-C 70, .A18-.A19; AR-C 80, ¶.24-.28; AR-C 80, .A36-.A37; AICPA Preparation, Compilation and Review Engagements Guide, ¶3.39-3.41.

³ ET Section 0.300.010 ¶.01-.02

The going concern dilemma puts our responsibilities to the public and to our clients at odds, as there may be pressure felt or imposed by the client to ignore or discount our conflicting responsibilities to the public, and accountants may be reluctant to appropriately address doubts about an entity's ability to continue as a going concern, not giving enough weight to the profession's commitment to honorable behavior, even if doing so is a personal sacrifice (the accountant may lose the client). Similarly, clients' interest in attracting potential lenders and investors can be at odds with the public's interest in perceiving doubt about an entity's ability to continue as a going concern.

The preface to the auditing standards mandates auditors maintain professional skepticism and exercise professional judgment throughout the planning and performance of audits. There is no mention of professional skepticism within the SSARs, only brief mention in the Guide (and only for review engagements).⁴ The "jury standards" contemplate accountants being skeptical in all services they perform. It is understood that the accountant may not appreciate or be exposed to evidence that would trigger professional skepticism, but the argument that "it is only a [review, compilation or preparation] of financial statements engagement" is not valid. An accountant is not permitted to stick his/her head in the sand and ignore going concern or other issues.

FASB ASU 2014-15 – Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern

The ASU established responsibilities for management to address going concern, defined substantial doubt, set one year from the date that the interim or annual financial statements are issued as the going concern assessment period, and established financial statement disclosure requirements. In many (most) instances (not public companies) management continues to presume that the going concern assessment, disclosure, and conclusion functions are their CPA's responsibility. CPAs need to be careful not to assume this responsibility and instead fulfill the requirements of the audit, review, compilation or preparation service they've been engaged to perform. On audits, this means auditors are to (1) obtain sufficient appropriate audit evidence to conclude on the appropriateness of management's use of the going concern basis of accounting, (2) conclude whether substantial doubt exists about the entity's ability to continue as a going concern for a "reasonable period of time," (3) evaluate the adequacy of the disclosures regarding the entity's ability to continue as a going concern," and (4) appropriately report on the financial statements.

Other Financial Reporting Frameworks

Accountants need to understand U.S. GAAP and the differences between U.S. GAAP and the financial reporting framework chosen by their client. If their client's non-GAAP financial reporting framework does not have published standards (e.g., modified cash or income-tax bases) accountants should adopt the U.S. GAAP methodology to address issues not understood to be an accepted framework departure, or should disclose the impact of the GAAP departures. Since income tax basis and modified cash basis of accounting don't prescribe the appropriate response to going concern, some clients and uninformed accountants think that, the report, financial statements and accompanying disclosures need not address the doubt. This is wrong.

⁴ Preparation, Compilation and Review Guide ¶1.12 – 1.15

Compilation and Preparation of Financial Statement Engagements

No assurance is obtained or provided on compilation or preparation of financial statement engagements. Whether or not the client's management has addressed the going concern presumption, the accountant may not ignore the issue when the accountant perceives doubt about their client's ability to continue as a going concern. As with review and audit engagements for which assurance is obtained, accountants should require that their client's management consider the going concern presumption, and if the client's management perceives doubt about the entity's ability to continue as a going concern, require that management provide the accountant with the actions management intends to take to address the doubt. Again, regardless of the level of service, the auditor/accountant then must assess the doubt and the viability of the perceived solutions. Audits and reviews contemplate obtaining audit evidence and review evidence, respectively. Compilation and preparation engagements don't require accountants to verify the accuracy or completeness of the information their clients provide, or to otherwise gather evidence to express an opinion or conclusion. However, when faced with a going concern issue, accountants, regardless of service, must assess the going concern presumption and the viability of the solutions offered by client management. This could include obtaining confirmations, written representations and valuations to assess the viability of management's response to the going concern issue.

The compilation and preparation of financial statements services permit clients to omit substantially all disclosures. When there is doubt about an entity's ability to continue as a going concern, the accountant should take steps to bring the doubt to the attention of financial statement users. As with audits and reviews, the accountant performing a compilation or preparation service should be certain that the doubt, and management's anticipated response to the doubt, are appropriately disclosed in notes accompanying the financial statements. When performing a compilation, the accountant should add an emphasis-of-matter paragraph to their report, drawing attention to the disclosure(s). However, no accountant's report should accompany an AR-C 70 preparation of financial statement engagement. So, instead of an emphasis-of-matter paragraph, CAMICO recommends the accountant alter the title to each financial statement to include the descriptor "Substantially All Disclosures Required by [Applicable Financial Reporting Framework (e.g., GAAP)] Omitted – See Going Concern Disclosure." The accompanying disclosures for compilation and preparation engagements should be labeled "Selected Information—Substantially All Disclosures Required by [Applicable Financial Reporting Framework] Are Not Included."

Conclusion

Accountants should advise their staff to be on the lookout for going concern issues regardless of the service performed. See the article, "Address Going Concern Issues as Early as Possible," (included in this issue of IMPACT). When a going concern issue is perceived, accountants should take immediate action to communicate the concern to the client. This article offers a limited understanding of ASU 2014-15, SAS 132, the SSARs, and the Guide, and is no substitute for reading and understanding the pronouncements. If you haven't already done so, CAMICO strongly encourages you to read the pronouncements, conservatively implement each, and embrace the risk management tips offered by this article. Policyholders can call CAMICO's Accounting and Auditing Hotline should you wish to discuss the article or how best to respond to a client's going concern dilemma.

Duncan B. Will, CPA/ABV/CFF, CFE, is Loss Prevention Manager/Accounting & Auditing Specialist for CAMICO (www.camico.com). He leverages his more than 30 years of experience in accounting, including public accounting, forensic accounting, consulting, and audit and tax compliance, when working closely with the Loss Prevention Specialists to manage the department's efforts to deliver to policyholders the high-touch, high-quality CAMICO experience. Will's specialty is accounting and auditing-related risk management services. He advises policyholders through the CAMICO Loss Prevention Hotline and speaks to CPA groups on a wide range of topics.

Address Going-Concern Issues as Early as Possible

By Duncan Will, CPA/ABV/CFF, CFE

Economic challenges create significant worries for CPA firms and their clients. Ignoring or delaying action in addressing problems (especially financial difficulties) will only allow them to fester and grow. CAMICO recommends facing and tackling the biggest issues as early as possible.

Recent developments within the accounting profession are also influencing the way CPAs approach their duties and responsibilities.

The following scenario illustrates some of the issues involved and the choices facing CPAs as they exercise professional judgment and manage what could become a financial reporting dilemma. All names have been changed.

Diane Prince, CPA, was advised by her client, Jack O. Lantern (“Lantern”), the owner of home builder, Living Large, LLC (“Large”) that his local bank wanted compiled financial statements. Lantern has told Prince that the bank knows the books “aren’t in great shape,” but the bank will be satisfied with compiled financial statements for the prior year end. Prince’s firm had already cleaned up the books and prepared Large’s tax return for that year.

Large owes \$15 million to the bank and another \$7 million to Lantern’s friends. The friends’ loans are unsecured demand notes.

Economic challenges worry Prince, as she understands that should any lenders get cold feet and demand payment, her client would have difficulty obtaining the funds needed to repay the debt. However, Prince is confident that Large will survive the year, as the year end is only a few weeks away.

Prince’s firm called CAMICO’s Loss Prevention department to discuss the “going concern” implications. The discussion addressed numerous issues.

The issues raised were: 1) whether the client’s financial statements should disclose or emphasize the uncertainty regarding the substantial current debt obligations; 2) whether a going concern disclosure was required or even appropriate; and 3) whether a going concern type of disclosure was appropriate when the CPA was nearly certain the entity would survive the year.

It was noted that U.S. GAAP reporting standards don’t differentiate between audits, reviews and compilations. The standards specify that if substantial doubt exists about an entity’s ability to continue as a going concern for one year after the date that the financial statements are issued (or available to be issued when applicable), this means the ability to survive the year after the balance sheet date is not sufficient. Accountants should consider whether management’s plans intended to mitigate the going concern conditions or events are sufficient to alleviate the substantial doubt.

CAMICO encourages CPAs to be critical in assessing the economic challenges facing their clients, management's assessment of the client's ability to continue as a going concern, and the viability of the solutions management has indicated they will pursue to alleviate the doubt about their client's ability to continue as a going concern.

Practitioners will be tempted to limit the going-concern treatment to the 12-month "time horizon" ending on the anniversary of the issuance date, but accountants should inquire of management regarding its knowledge of conditions or events beyond the period of management's evaluation that may have an effect on the entity's ability to continue as a going concern.¹ Such inquiries are not intended to require management to extend its evaluation beyond the requirements of the applicable financial reporting framework. Other than inquiry of management, the auditor does not have a responsibility to perform other audit procedures to identify conditions or events that may raise substantial doubt about the entity's ability to continue as a going concern for a reasonable period of time beyond the period evaluated by management,² but should not ignore known conditions or events.

CAMICO recommends that practitioners who choose not to add going concern language to their accountants' reports: 1) insist their clients' financial statements include disclosures detailing the events and circumstances which would impact the going concern assumption, and 2) add an emphasis-of-matter paragraph to their report to draw attention to these disclosures. But remember, emphasis-of-matter paragraphs can't introduce new information — their use is limited to emphasizing matters already disclosed in the financial statements.³

In this instance, Prince was leaning towards adding a going concern disclosure, but ultimately settled on adding similar disclosures and adding an emphasis-of-matter paragraph. Even though she wasn't adding a going-concern paragraph to her report, she wished to make financial statement readers aware of the issues. She had two reasons. First, professional standards⁴ indicate that once a CPA concludes that doubt about an entity's ability to continue as a going concern for a reasonable period of time is alleviated, the CPA should consider disclosing the conditions and events that caused her to believe substantial doubt existed. Second, and most importantly, it was understood that adding disclosures to the financial statements and an emphasis-of-matter paragraph to her report would better inform financial statement readers. Therefore, Prince convinced Large to add a "subsequent events" disclosure describing: 1) the current economic climate, 2) Large's debt situation, and 3) the economic strains facing Large.

Prince's professional judgment was that a going-concern paragraph was unnecessary, but she still wished to make financial statement readers aware of the issues. She therefore chose to add an emphasis-of-matter paragraph to her report referencing the "subsequent events" disclosure.

Had Prince chosen not to disclose this information, and the financial statement users ultimately suffered a loss, they might later allege that the information was omitted intentionally to mislead

¹ AU-C §570.15, AU-C §570. A23, .A25–.A27

² AU-C §570.A21

³ AR-C §90.05, Preparation, Compilation and Review Guide ¶1.189 - ¶1.191, and Glossary

⁴ AU-C §570.22

them. The burden of proof would then shift to the CPA to explain why she missed what was obvious in hindsight.

Before concluding the discussion, it was agreed that Prince would encourage Large to verify that the compiled prior year's financial statements would meet the bank's needs. It was also agreed that Prince's engagement letter would: 1) describe illustrative reporting language, 2) require Lantern to provide written representations in a format agreed to by Prince; and 3) the financial statement's use would be restricted to Lantern and the one specified lender.

Loss Prevention Tips

Going-concern issues should be addressed as early as possible in an engagement. Don't delay dealing with them until you are trying to wrap up an engagement — that is too late! CAMICO claims history is rich with cases where practitioners, though aware of their clients' financial hardships, procrastinated and chose to ignore or delay recognition of the elephant in the room. Embrace the words "Hello, Dumbo" (or you may later hear the words in a greeting). Delay makes the necessary conversations more difficult, may impair your objectivity, and usually exacerbates the problem. Clients will then claim you've wasted their time and money, as a more flexible, competent and understanding professional would not require the unflattering disclosures.

Also, just because your client says they want a particular financial statement service doesn't mean it's the most appropriate service for them or what third-party users will require. Push back. Find out whether the service being requested will meet the client's and the intended users' needs. If you later discover the service was more or less than optimal, you may find not being paid is only the beginning of your problems.

Use engagement letters to specify the scope and limits of your services as well as your and management's responsibilities. Standardized engagement letters are good templates, but modifications should be made as needed, perhaps including the anticipated language of your report. These determinations cannot always be made until the services have begun. If so, promptly communicate in writing the change in circumstances and consider revising your engagement letter accordingly.

Representation letters can be used in all engagements — not just audits and reviews. CAMICO encourages practitioners to consider using representation letters for any engagement in which the accountant relies on significant management representations. These letters are often quite helpful to be certain owners and management take ownership for the representations being made in their financial statements. Their use when providing other services does not increase risk exposure by suggesting that a higher level of service and assurance is present. To avoid confusion, specify your level of service in both engagement and representation letters.

Obtaining your client's written representations is all the more significant when clients are facing an economic challenge. Representation letters are great defensive documentation, but they aren't a substitute for professional skepticism and judgment. Remember, just because you have a signed representation letter doesn't mean you can make like an ostrich and drill your head into the sand.

Be sure to reach out to CAMICO for guidance when your clients face “going concern” issues. These issues aren’t limited to attest engagements. As always, CAMICO policyholders can call 1.800.652.1772 for assistance.

Duncan B. Will, CPA/ABV/CFF, CFE, is Loss Prevention Manager/Accounting & Auditing Specialist for CAMICO (www.camico.com). He leverages his more than 30 years of experience in accounting, including public accounting, forensic accounting, consulting, and audit and tax compliance, when working closely with the Loss Prevention Specialists to manage the department’s efforts to deliver to policyholders the high-touch, high-quality CAMICO experience. Will’s specialty is accounting and auditing–related risk management services. He advises policyholders through the CAMICO Loss Prevention Hotline and speaks to CPA groups on a wide range of topics.

Changes to AICPA Interpretations and Definitions Pose Risks for Those Unaware

The AICPA's Professional Ethics Executive Committee has revised existing ethics definitions and existing and adopted new interpretations. The [new and revised interpretations and guidance](#) include new definitions for "Attest client" (ET sec. 0.400.03) and "Client" (ET sec. 0.400.07) which could be an issue for accountants unaware of the change.

The revised definition of "Client" clarifies that when the *engaging entity* is not the subject of the professional services (subject entity), accountants have two separate clients within one engagement and must treat them as separate clients.

The clarification of the definition of "Client" also impacts the application guidance for "Records Requests" (ET sec. 1.400.200) to clarify that accountants won't violate the guidance (1) by returning the records to the person or entity that gave the records to the accountant, (2) when engaged by one party to benefit another party and provides the work products to the beneficiary (e.g., when engaged by a company to prepare its executives' tax returns), and (3) unless there is an agreement that states otherwise when engaged to perform professional services with respect to an entity that is not intended to benefit from the professional services, and the accountant provides the work products to the engaging entity.

Accountants should be required to return client-provided records to parties who provided those records. So, if an engaging entity provided the accountant with records, then the accountant should return the records only to the engaging entity. And if the subject entity provided the records to the accountant, then the accountant should return the records to the subject entity and not to the engaging party.

The "Attest Client" definition has required accountants be independent of both the subject entity and the engaging entity, when the two are not the same entity. The clarified "Attest Client" definition no longer requires accountants to be independent of the engaging entity when engaged to perform an attest engagement on an entity when the engaging entity and the subject entity are not the same entity. Although accountants no longer need consider whether they are independent of the engaging entity in such instances, they should remain cognizant of potential threats to their objectivity (e.g., conflicts of interest) with regards to entities that engage the accountant to perform attest services for a subject entity client.

New Definition of Attest Client

.03 Attest client. *A person or entity* with respect to which a member performs an attest engagement is performed. [No prior reference: new content.]

If the person or entity that engages a member or member's firm (member) to perform professional services (engaging entity) is not also the attest client, the member should refer to the "[Client Affiliate](#)"

interpretation [1.224.010] to determine whether the engaging entity is an affiliate from which the member should be independent. However, because threats to the member's compliance with the "[Integrity and Objectivity Rule](#)" [1.100.001] and the "[Conflicts of Interest for Members in Public Practice](#)" interpretation [1.110.010] may still exist with respect to the engaging entity, members should comply with this rule and interpretation.

New Definition of Client

.07 **Client**. Any person or entity, other than the member's employer, that engages a member or member's firm to perform professional services (engaging entity) and also, a person or entity with respect to which a member or member's firm performs professional services (subject entity). When the engaging entity and the subject entity are different, while there is only one engagement, they are separate clients.

Text of Revised Definition of Client

(Additions are in boldface italic, and deletions are in strikethrough.)

.07 **Client**. Any person or entity, other than the member's employer, that engages a member or member's firm to perform professional services (***engaging entity***) and ***also***, if different, the ***a*** person or entity with respect to which ***a member or member's firm performs*** professional services (***subject entity***) are performed. ***When the engaging entity and the subject entity are different, while there is only one engagement, they are separate clients.*** For purposes of this definition, the term employer does not include the following:

a. ~~Person or entity engaged in public practice.~~

b. ~~Federal, state, and local government or component unit thereof, provided that the member performing professional services with respect to the entity is~~

i. ~~directly elected by voters of the government or component unit thereof with respect to which professional services are performed;~~

ii. ~~an individual who is (1) appointed by a legislative body and (2) subject to removal by a legislative body; or~~

iii. ~~appointed by someone other than the legislative body, so long as the appointment is confirmed by the legislative body and removal is subject to oversight or approval by the legislative body.~~

[Prior reference: paragraph .03 of ET section 92]

See paragraph .03 of the "Simultaneous Employment or Association With an Attest Client" interpretation [1.275.005] for independence guidance related to a member in a government audit organization that performs an attest engagement with respect to the government entity.

Text of Revised Definition of Attest Client

(Additions are in boldface italic, and deletions are in strikethrough.)

.03 Attest client. ~~A client that engages a member to perform an attest engagement or~~ **A person or entity** with respect to which a member performs an attest engagement is performed. [No prior reference: new content.]

If the person or entity that engages a member or member's firm (member) to perform professional services (engaging entity) is not also the attest client, the member should refer to the "[Client Affiliate](#)" interpretation [1.224.010] to determine whether the engaging entity is an affiliate from which the member should be independent. However, because threats to the member's compliance with the "[Integrity and Objectivity Rule](#)" [1.100.001] and the "[Conflicts of Interest for Members in Public Practice](#)" interpretation [1.110.010] may still exist with respect to the engaging entity, members should comply with this rule and interpretation.

See paragraph .06 of the "Client Affiliates" interpretation [1.224.010] for acquisitions and business combinations that involve a financial statement attest client.

See paragraph .03 of the "[Simultaneous Employment or Association With an Attest Client](#)" interpretation [1.275.005] for independence guidance related to a member in a government audit organization that performs an attest engagement with respect to the government entity.

Here is a link to other [recent AICPA definitions, interpretations, and guidance](#).

War Story No. 110

Subject: Ransomware Incident; Encrypted Files

An employee of a midsize CPA firm opened an unsolicited email attachment that immediately downloaded ransomware onto the firm's computer system. The employee noticed that the file names were rapidly being changed to "Needs Decrypting."

The employee turned off and rebooted his computer, but the virus had already spread to all the firm's servers, and all the files became encrypted. The employee reported the incident to the firm's managing partner, who emailed all firm employees, notifying them of a "data breach."

The partner then emailed and called the firm's IT staff, who deleted all of the encrypted files and restored the files from a backup.

The partner also emailed a local attorney who knew the firm and specialized in data breach laws and notice obligations. The attorney asked an IT forensics expert to investigate the incident and to help determine whether the firm's clients should be notified. The forensics expert arrived at the firm and conferred with the attorney and the firm's IT staff.

After reading the following questions, select the one answer that is the best response.

1. What was the conclusion reached by the IT forensics expert and the attorney?

- A. Since all of the encrypted files had been deleted, and the files restored from a backup, there were no concerns about personal information in the files being accessed.
- B. Because the files had been deleted, the forensics expert was unable to determine whether the hacker had accessed the personal information in them, and therefore the firm was required to notify all of its clients of the incident.

2. Which of the following responses to this incident was *not* a mistake:

- A. Opening an unsolicited attachment
- B. Turning off and rebooting the computer
- C. Reporting the incident to the managing partner

3. Which of the following actions taken by the managing partner was a mistake:

- A. Notifying all firm employees of the incident
- B. Referring to the incident as a "breach"
- C. Emailing the attorney
- D. A and B
- E. All the above

4. Which step should the firm take first in response to a cyber incident?

- A. Call an IT forensics expert to determine whether a breach has occurred.
- B. Report the incident to the firm's attorney or cyber insurance carrier.
- C. Report the potential breach to law enforcement.

Answers

1. **Answer A:** Incorrect. Because the files had been deleted, the forensics expert was unable to determine whether personal information had been accessed. Federal regulation therefore required client notifications. Evidence should be preserved to resolve an incident or conduct an investigation. Actions on affected systems should be restricted to forensics experts.
Answer B: Correct. Since the forensics expert was unable to determine whether personal information had been accessed, federal regulation required client notifications. Evidence should be preserved to resolve an incident or conduct an investigation. Actions on affected systems should be restricted to forensics experts.
2. **Answer A:** Incorrect. Opening an unsolicited attachment is a mistake that can be avoided. If the email was not solicited or expected, the recipient should delete it or check with the sender before opening the attachment or clicking a link. Such actions can download viruses and malware to the computer network.
Answer B: Not incorrect, but not the best response. Removing the affected device from the internet or the insured's system to isolate the virus spread is usually the first thing suggested by IT forensics experts or counsel. Leaving it on could allow the virus to spread. The computer user should take notes recording the date, time, systems/data affected, who discovered the incident, and report the incident to the person responsible for incident responses.
Answer C: Correct, and the best response. The managing partner of the firm functioned much like a Chief Information Officer in a larger organization and as such had ultimate authority and responsibility for managing information security.
3. **Answer A:** Correct, but there's a better answer. Only members of an Incident Response Team should be notified, not all employees. Handle incident communications on a need-to-know basis.
Answer B: Correct, but there's a better answer. Do not use the term "breach," which may imply a legal conclusion. Instead, call it a "security incident" or simply what it is (e.g., a "lost laptop").
Answer C: Correct, but there's a better answer. Email should be avoided when communicating about an incident in the event that email and electronic systems have been compromised; use the telephone instead.
Answer D: Correct, but there's a better answer.
Answer E: Correct and the best answer.
4. **Answer A:** Incorrect. If a forensics expert conducts an investigation outside of the firm's relationship with an insurance carrier or attorney, the communications produced by the investigation may not be protected by attorney-client privilege.
Answer B: Correct. The firm should first report the breach and obtain the advice of the firm's attorney or insurance advisers. The subsequent communications produced by an investigation may then be protected by attorney-client privilege. If a breach has occurred, as defined by the state and federal laws that apply, the next steps would include complying with those laws, which may require reporting to law enforcement.

Answer C: Incorrect. A potential breach should not be reported to law enforcement. If it has been determined that a breach has occurred, as defined by the state and federal laws that apply, the next steps would be to comply with the laws, which may require reporting to law enforcement.

CAMICO-BAM Program Marks Three Years

September 2017 marked the three-year anniversary of the program forged by CAMICO and Berkley Alliance Managers, a Berkley company. The CAMICO-BAM program serves CPA firms seeking larger professional liability insurance policy limits, as well as firms requiring an A+ rating, as W. R. Berkley Corporation's insurance company subsidiaries are rated "A+ (Superior)" by A.M. Best Company.

CAMICO Mutual Insurance Company, which has been insuring CPA firms since 1986, continues to serve firms seeking smaller policy limits. Both CAMICO Mutual and the CAMICO-BAM program provide all CAMICO policyholders with the CPA-focused services, resources and expertise that CAMICO has provided for more than 31 years, including risk management, loss prevention, potential claims, and claims services. These features are highly popular with policyholders and help CAMICO maintain its annual policyholder retention rate of more than 93 percent, year after year.

The CAMICO-BAM program also provides greater capacity, flexibility and options to CAMICO policyholders and has played a major role in improving CAMICO's key financial ratios.

Why CAMICO-BAM?



Stephen L. Porcelli, president of BAM, points out that he and his team share CAMICO's proactive philosophy of taking care of policyholders' risk management problems. "Berkley Alliance Managers shares common interests, traits and goals with CAMICO, and we are closely aligned with each other on our approach to understanding and helping policyholders."

Berkley Alliance Managers is an operating unit of W. R. Berkley Corporation and as such reacts as quickly and effectively as a smaller business while offering the stability and resources of a larger corporation. "We are experts in high-service professional liability, and our people are highly experienced and focused on their roles in serving policyholders," said Porcelli. "Our accessibility to partners such as CAMICO enables us to make the best strategic decisions for all stakeholders."

Porcelli noted CAMICO's long history of success in serving the accounting profession: "CAMICO offers CPAs a unique high-end experience – policyholders know that their CAMICO policy comes with a myriad of useful risk management advice and assistance. It starts with an underwriting approach that fully grasps the unique challenges faced by the accounting profession, and it continues with a consultative approach to avoiding, minimizing and handling claims."

In short, BAM's stability, size and expertise in professional liability combines with CAMICO's CPA-centric expertise, services and resources to provide an exceptional program for CPA firms. "A powerful part of our partnership is that CAMICO and BAM have better know-how and ideas when it comes to serving policyholders," said Porcelli. "When we get that message across to CPAs, and they experience the assistance our program provides, they start to understand the mission and become advocates themselves. We want to build that support and keep distinguishing our program from others. We

believe CAMICO is poised to reach an even wider audience of CPA firms around the country for many years to come.”