

Accountability

Issue VI

Good Client Relations is The First Step in Avoiding Lawsuits

The most important relationship of an accounting firm is that relationship it has with its clients. If a firm doesn't have loyal clients, it will not be profitable nor will it be able to survive and grow. The best way to thrive is to avoid taking on clients that could potentially be problems. Companies that are experiencing financial or legal difficulties, have changed accounting firms often, or have a reputation for being hard to work with, are risky to engage as new clients as they are likely to be a source of lawsuits and claims. Even clients that don't appear to have a blemished public record may prove to be a source of aggravation at best, and a source of claims at worst.

No matter the size of an accounting firm, it must have a definite procedure for screening potential new clients, to ensure that they will not be detrimental to the firm in any way.

The first step in screening new clients is to conduct a potential client interview prior to making any agreements of work to be done. This is to give the client an idea of what the firm is all about as well as for the firm to make its own determinations. The important data that the accounting firm must gather during this initial meeting are as follows:

- ◆ Nature of client's business and history and the client's view of where the business is heading.
 - ◆ Experience and longevity of management.
 - ◆ Accounting policies and procedures utilized by the client.
 - ◆ Type and scope of the work to be done by the accounting firm.
- ◆ Any conflicts of interest.
 - ◆ Existence of any litigation or potential litigation or regulatory inquiries.
 - ◆ Willingness of client in assisting the accounting firm to complete tasks for which they have been engaged.
 - ◆ Client's reason for seeking a new accounting firm.

The firm should evaluate the answers carefully and obtain permission to contact the prior accounting firm(s), some suppliers and customers, and banking records for further subjective evaluation. If the client is quite large, the firm may want to further investigate using credit rating bureaus and various computer databases to obtain more public information.

The most important one of these evaluations is the contacting of the prior accounting firm(s). Hopefully, the prior accounting firm is willing to share their experience and is willing to reveal:

- ◆ Scope of work performed for the client and if the accountant felt that anything was unusual or amiss.
- ◆ If there were any disagreements with the client or threat of lawsuits initiated by the client.
- ◆ Reasons why the client is changing accountants.
- ◆ If the client was able to pay on time the full amounts agreed upon.

The track record of a client is a good indicator of future performance. If the client had disputes with the accounting firm or was not exemplary at paying their bills, it's a good bet that any subsequent firm will experience the same difficulties.

Another barometer of the review process in screening potential clients is the review of prior work papers. The prospective client can supply financial statements which give you the ability to assess the financial stability of the business as well as the internal controls of the organization. If the internal controls are inadequate or poor this can be an indication of a firm to avoid taking on.

If the accounting firm is fully informed of who and what their potential clients are, they will be much less likely taken by surprise in the future. It can make an informed decision as to whether the client is one that will help the practice grow or may be a source of headaches or possible lawsuits in the future.