



Affinity

# Accountants Professional Liability Severity Drivers

## What is a severity driver?

In claims where CNA made an indemnity payment of \$1,000,000 or more in the last 20 years, the following were repeated commonalities and contributing drivers to why these claims resulted in large payments.

Driver	Description	Resource
<b>All Areas of Practice</b>		
<b>Failure to Detect Embezzlement/Fraud</b>	When a client experiences a large embezzlement or fraud, a claim is often made against the CPA firm, regardless of the area of practice.	<a href="#">Failure to Detect Theft or Fraud: It's not just an audit issue</a>
<b>Improper Activity Alleged vs. CPA (perceived or real)</b>	Juries tend to impute greater liability to the CPA firm if misconduct is alleged, especially if such allegations relate to independence or the existence of a conflict of interest. Plaintiff attorneys will misrepresent a set of facts or circumstances to give the appearance of a CPA's impropriety. Additionally, if intentional wrongdoing is alleged, punitive damages may be demanded, significantly increasing the damages sought.	<a href="#">Independence is in the Eye of the Beholder</a> <a href="#">A Framework for Maintaining Ethics Compliance</a> <a href="#">Managing Conflicts of Interest</a>
<b>Size of Underlying Loss (regardless of liability)</b>	Courts can be reluctant to release defendants early on in a lawsuit when large damages are alleged. Moreover, even if the CPA firm's estimated percentage of liability is small, a small percentage of a large damages number can still result in substantial exposure. Finally, the cost to defend a claim with sizeable asserted damages can be significant.	<a href="#">Early Warning Signs of a Large Malpractice Claim</a>
<b>Audit</b>		
<b>Failure to Detect Embezzlement/Fraud</b>	When a client experiences a large embezzlement or fraud, a claim is often made against the CPA firm, especially when the firm provides audit services.	<a href="#">Failure to Detect Theft or Fraud: It's not just an audit issue</a>
<b>Lack of Independence (real or perceived)</b>	Juries tend to impute greater liability to the CPA firm if misconduct is alleged, especially if such allegations relate to independence. Plaintiff attorneys will misrepresent a set of facts or circumstances to give the appearance of a CPA's impropriety.	<a href="#">Independence is in the Eye of the Beholder</a> <a href="#">A Framework for Maintaining Ethics Compliance</a> <a href="#">How Social and Digital Media can be a #majorrisk</a>

<b>Failed/Distressed Company</b>	<p>When a business fails, the CPA firm that provided attest services is often sued. A bankruptcy trustee may be appointed and may seek recovery from any source it deems to have contributed to the company's failure. The persistence of the bankruptcy trustee, combined with the large dollar amounts that are generally lost when a company fails, contribute to drive large claim amounts.</p>	<p>Early Warning Signs of a Large Malpractice Claim</p>
<b>Non-Audit</b>		
<b>Engagement Creep</b>	<p>If the CPA deviates from the scope outlined in the engagement letter, the effectiveness of the engagement letter as a defense is diminished. The scope of the CPA's responsibilities may be infinitely expanded depending upon the allegations made by the client and their attorney.</p>	<p>Don't Let Scope Creep Lead You Out of Bounds</p>
<b>Investment Advice</b>	<p>Advising a client on the merits of a business transaction or an investment may result in a large claim if the investment does not yield the results expected by the client. Claims related to investment advice can arise even if the CPA is not specifically engaged to provide such advice.</p>	<p>The Accidental Investment Advisor</p>
<b>Over-Reliance on CPA</b>	<p>A client who shifts this responsibility to the CPA, or who refuses to participate in the CPA firm's services, is likely to shun accountability for any negative outcome and blame the CPA.</p>	<p>The Pitfalls of Assuming Management Responsibilities Minding the Expectation Gap in a CAS Engagement</p>
<b>By Type of Client</b>		
<b>Entertainment</b>	<p>High-profile or high-net-worth clients have the financial means to engage in aggressive litigation, resulting in extensive, time-consuming, and expensive discovery until they obtain the result to which they feel entitled. Juries can become enamored with a client's celebrity status and have granted awards in staggering amounts that are often not in line with the actual damages that may have been caused by the CPA.</p>	<p>Risky Business of Serving the Rich and Famous</p>
<b>Financial Institutions</b>	<p>Disputes related to audits of banks, credit unions, insurance companies and other financial institutions tend to result in larger claims. These industries generally have complex accounting rules and governmental regulators that step in to help ensure account holders and policyholders do not suffer losses if the institution fails. Similar to a bankruptcy trustee, regulators often vigorously pursue the CPA firm to help recover the losses.</p>	<p>Early Warning Signs of a Large Malpractice Claim</p>
<b>Healthcare</b>	<p>Healthcare is another industry with complex accounting rules, government regulators, and usually high amounts of damages at issue when claims are made.</p>	<p>Early Warning Signs of a Large Malpractice Claim</p>
<b>Trusts &amp; Estates</b>	<p>Professional liability claims related to trustee services are not typically made by the trust grantor/client but by non-client trust beneficiaries who do not have a preexisting relationship with the CPA and, consequently, have no loyalty to the CPA or his or her firm. Large claims can result when the beneficiaries contend that they have not received all of their anticipated share of trust assets through either the trustee's mismanagement of the trust or the favoring of one beneficiary over another. Family squabbles often come into play, exacerbating the situation and resulting in protracted and expensive litigation.</p>	<p>The Unexpected Risks of Trustee Services</p>

For more information, visit [cna.com](https://www.cna.com).

The purpose of this document is to provide information, rather than advice or opinion. It is accurate to the best of the authors' knowledge as of the date the resource was developed. The information, examples and suggestions presented in this material have been developed from sources believed to be reliable. Accordingly, this presentation should not be viewed as a substitute for the guidance and recommendations of a retained professional and should not be construed as legal or other professional advice. In addition, CNA does not endorse any coverages, systems, processes or protocols addressed herein unless they are produced or created by CNA. Any references to non-CNA websites are provided solely for convenience, and CNA disclaims any responsibility with respect to such websites. Examples are for illustrative purposes only and not intended to establish any standards of care, serve as legal advice, or acknowledge any given factual situation is covered under any CNA insurance policy. The relevant insurance policy provides actual terms, coverages, amounts, conditions, and exclusions for an insured. All products and services may not be available in all states and may be subject to change without notice. "CNA" is a registered trademark of CNA Financial Corporation. Certain CNA Financial Corporation subsidiaries use the "CNA" trademark in connection with insurance underwriting and claims activities. Copyright © 2022 CNA. All rights reserved. 20210615 3076

