A Lot of Change Creates a Lot More Liability Risk

By Wilhelm Dingler

Insightful lessons can be learned by reviewing professional liability issues. With this in mind, Gallagher Affinity provides this column for your review. For more information about liability issues, contact Irene Walton at irene_walton@ajg.com.

Many commentators say data security, the habits of a remote workforce, and changes in tax policy are the leading hazards facing the profession. It would be wise to add the following to that list: the emergence of artificial intelligence, automated processes, cloud-based accounting, and a focus on tax accounting to include foreign income recognition and accountability. When considering the above issues, do not forget the risk management calculus.

Technology Upgrades

Incorporating new technologies has become front and center among the challenges faced by accountants. Remote work, for example, presents a unique data security challenge. It is easy to create a secure download for client documents, data, and the like. However, accountants should know about some of the lesser-known pitfalls.

Do remote workers have Siri, Alexa, or Google Assistant running in the background? As noted in CNET's *Smart Home Privacy Guide*, those "helpers" are always listening. Take steps to ensure that such devices are not compromising your clients' sensitive financial data. Paper-based work is another potential data security risk. In the office, you likely had shredding bins. At-home workers must resist the temptation to simply put such items in the home trash or recycling. A quality shredder or a dedicated bin that is taken to the office to shred may be a solution. If remote workers use their own shredder, be sure it meets the minimum-security level for sensitive information so documents cannot be reassembled.

Automation and outsourcing are becoming the norm for many accounting firms. Some believe outsourcing services will grow by multiple billions of dollars in the next five years. With outsourcing and automation, however, the accountant's duty of care actually increases. When it comes time to sign a tax return as preparer, you are stating that the information provided on the form is accurate to the best of your knowledge. Therefore, you must assure yourself that your automated or outsourced data/work is, in fact, accurate. One cannot rely on the defense that it was someone else's work upon which you relied. As one judge once asked a tax preparer, "That is your signature attesting to the accuracy 'to the best of your knowledge,' correct? Where does it say except for the data my offshore team compiled and/or my automated software analyzed?"

Be vigilant over any outsourced data workers and be sure to carefully spot check their work product. Similarly, become familiar with the limitations of your automated accounting processes (and those of your client, as they will be using such technology as well). Security problems with automated systems are enhanced because the computers and servers upon which the data resides with the automated process can be compromised. A robust in-house audit by humans checking for accuracy and security will provide additional insulation from hackers itching to find a vulnerability.

Changes in Tax Policy

The 2022 Consolidated Appropriations Act, better known as the COVID stimulus, incorporates numerous tax policy and regulatory changes, such as tax extenders, PPP expense deductions, and simplified processes for PPP loans under $150,000. The Employee Retention Credit (ERC), which was part of the 2020 CARES Act, adds additional layers of consideration. The IRS, the AICPA, and others have published warnings, guides, and pitfalls related to ERC issues.[1] It has always been the job of a tax accountant to keep abreast of the nuances in the tax law, but it seems that lately there is more to digest and less time in which to do it.

Even the best CPA with up-to-date CPE compliance and knowledge is hard pressed to know it all. Better to ask for help than to find oneself facing an angry client with an interest and penalty assessment (or worse).

Accounting Standards

The Financial Accounting Standards Board (FASB) periodically issues accounting standards updates that could affect financial statements and how to ensure they remain compliant with GAAP. Like the tax policy changes mentioned above, this area, too, is fraught with peril for an unwary CPA. Accounting standards is a "bread and butter" area, so be sure you update your knowledge base with all the latest standards.

The PICPA offers numerous CPE programs and publications – such as this journal and the *CPA Now* blog – to assist you in understanding the changes arising from the FASB.

Among all these examples of a changing accounting landscape, the biggest takeaway to minimize the accompanying risk is to always stay alert and be proactive.

[1] "Employers Warned to Beware of Third Parties Promoting Improper Employee Retention Credit Claims," IRS news release (Oct. 19, 2022). www.irs.gov/newsroom/employers-warned-to-beware-of-third-parties-promoting-improper-employee-retention-credit-claims

Wilhelm Dingler is a shareholder with Bullivant Houser Attorneys in Seattle. He can be reached at wilhelm.dingler@bullivant.com.