**ACCOUNTANTS’ PROFESSIONAL LIABILITY INSURANCE – A SHORT PRIMER.**

CPAs are recognized as trusted advisers. entrepreneurs, charities, government and private individuals rely upon the advice of CPAs to ensure that they have an accurate record of income and expenditures, and to prepare reports for creditors, investors or the IRS.

A CPA has common law, contractual and statutory duty to their clients to perform services that meet professional standards. Failure to meet these standards can result in a malpractice claim.

A CPA sometimes makes mistakes and potential liabilities that may arise during the course of professional services include:

* Accounting errors
* Data entry errors
* Failure to follow Generally Accepted Accounting Principles
* Failure to follow Generally Accepted Auditing Standards
* Improper or incorrect tax advice
* Failure to meet deadlines
* Failure to maintain appropriate documentation
* Failure to perform background search
* Failure to maintain appropriate safeguards
* Failure to complete appropriate forms
* Failure to perform appropriate peer review
* Theft of client assets
* Failure to detect defalcation/fraud

To mitigate the impact of a malpractice claim, most prudent CPAs purchase comprehensive professional liability insurance coverage.

Coverage should be sufficiently broad to encompass all the services offered by the CPA with extensions for specific exposures like fiduciary services, personal financial planning and cyber perils. The policy should provide sufficient limits of liability to protect the CPA against the maximum potential loss plus any additional defense costs.

Coverage is often limited by a prior acts (or retro limitation) date and policies are written on a claim made and reported basis (that is, claim must be notified during the policy terms and related to work performed after the prior acts date).

The majority of professional liability underwriters use either billable staff or revenues as a rating base. Premium adjustments are made for location, area of practice and claims experience. Finally Individual risk modification factors are applied to account for types of clients, risk and practice management features. Coverage can be augmented by adding a separate limit for defense costs or additional cyber coverage. Deductible can be modified to aggregate or loss only. Standard exclusions usually relate to criminal acts, conflicts of interest, coverage provided by other insurance products or activities generally considered high risk.

Access to the insurance markets that offer accountants’ professional liability insurance is often only available through a specialist program manager or wholesale broker.