

Avoid Added Liability from Strategic Alliance Agreements

By Suzanne M. Holl, CPA

There can be a number of advantages and disadvantages to establishing a strategic alliance with another CPA firm or a provider of financial services and/or products. Some of the advantages include access to back-office custodial and support services, which in turn can help enhance the image, reputation and revenue of the firm.

On the downside, an alliance may change the firm in ways that can defeat such advantages. Consider these disadvantages:

- More hidden costs than anticipated
- A change in the firm's fundamental character from relationship driven to transaction driven
- An erosion of the firm's independence and objectivity
- Exposure to additional liability risks

A thorough due diligence process is crucial. Some of the steps would include:

- determining the specific expectations of potential alliance partners (i.e., what they need from the firm in terms of referrals, mailing lists, business plan execution, etc.),
- interviewing other CPA firms that have entered into similar alliances to learn from their experiences,
- spending time with potential partners to determine whether you are comfortable with their style of practice and whether your business plans and philosophies are compatible, and
- researching and studying what is needed to execute the business plan; hidden costs may include software, training, licensing, marketing and fee-sharing.

Especially critical is the alliance agreement, which typically contains legal language and caveats. Before contractually binding your firm to an alliance, it is important to understand all of the implications of the legalese. For example:

- Some agreements attempt to shift liability from service providers to the CPA firm, *even for errors and omissions committed by the service provider.*
- Some agreements have clauses that require the firm to add the service provider as an additional insured under the CPA's professional liability policy.

Follow these risk management steps before entering into an alliance agreement:

- Assess whether or not the culture and values of the service provider are a good match for your firm. An alliance may negatively impact the fundamental characteristics of the firm.
- Consult with a qualified attorney to review the agreement, especially an attorney comfortable with assessing professional liability risks as well as contract terms.
- Contact your professional liability carrier regarding the liability risks and coverage implications associated with the agreement. Your carrier's advice would be supplemental to, but not replace, appropriate legal review.
- Push back. You do not have to accept the terms as they are written in an agreement, preprinted or not.

- Develop quality control measures and loss prevention strategies to manage the added liability exposures.
- Determine whether the potential strategic alliance partner has its own professional liability insurance.

Some firms have defined the nature of their relationship with the alliance partner in the agreement. If the partner is to be more of a back-office custodian and service provider than an equal partner, make sure this is spelled out. Also, when considering issues regarding your firm's independence and objectivity with respect to a potential alliance, be sensitive to the impact of the public's perceptions and expectations of CPAs.

Suzanne M. Holl, CPA, is vice president of loss prevention services with CAMICO (www.camico.com). With more than 18 years of experience in accounting, she draws on her Big Four public accounting and private industry background to provide CAMICO's member-owners with information on a wide variety of loss prevention and accounting issues.

Copyright © 2009 CAMICO Mutual Insurance Company. All rights reserved.