

Risk Profiling of Clients

Wednesday, May 6, 2009
Budapest, Hungary

What are the risks to consider with a new client?

- Ethical Risks
- Professional Risks
- Business Risks

Client Selection Issues

"With respect to client quality, the issues are two-fold. First, there are the often-discussed problems associated with inappropriate new client selection. Increasingly, however, we are seeing claims arising from situations in which [professionals] lose their objectivity ... often turning a blind eye to inappropriate behavior on the part of corporate clients or their management."

ALAS 2007 Annual Report, p. 10

It starts at the intake stage

"Though it would certainly be a plus to be able to identify bad-news clients before taking them on, it's not as if they walk in the door wearing a shirt that proclaims 'I'm about to become your worst nightmare.'"

Instead, a lawyer who wishes to minimize the chances of picking a lemon should tailor his or her intake process to increase the odds of ending up with something a bit sweeter". Sullivan, "Canning Your Client", ABA Journal, March 2008, p. 52.

What are the possible consequences of accepting the wrong engagement?

- Professional sanctions
- Getting sued
- Losing an existing client
- Non-payment
- Loss of reputation
- Disruption to the organization from any or all of the above

U.S. Code of Professional Responsibility

- Ethics Rules:
 - Rule 1.1 [Competence](#)
 - Rule 1.3 [Diligence](#)
 - Rule 1.5 [Fees](#)
 - Rule 1.6 [Confidentiality of Information](#)
 - Rule 1.7 [Conflict of Interest](#)
 - Rule 1.9 [Duties to Former Clients](#)
 - Rule 1.16 [Declining or Terminating Representation](#)
 - Rule 1.18 [Duties to Prospective Client](#)

What are some of the ethical risks?

- Matters or clients that present “moral” issues.
- Matters that could violate professional standards.
- Compare to the U.S. legal ethical rules.

What are some of the professional risks?

- Untrustworthy client
- Work outside of your area of competence
- Unreasonable deadlines
- Unreasonable burden on the firm

What are some of the business risks?

- Risk of not getting paid
- Risk of damaging your or your firm's reputation

When should you find out the facts that will allow you to decide whether to accept the client?

From the website of a TAGLaw member when the email address of an attorney is selected:

"We must insist that you not send us any information about the substance of any matter that may involve you until you have talked with one of our lawyers. If you ignore this warning and submit any information that is confidential, then by clicking on the 'ok' box, you agree that your submission will not preclude the firm from representing another client in a matter adverse to you where that information could be used against you. However the firm agrees that it will not make such use of such information and will hold it confidential."

- Before you receive confidential information
- Before you are engaged

What are some warning signs?

- Clients who have left another accounting firm over a dispute
- Clients who face deadlines that have been ignored
- Clients with incomplete or untrustworthy records
- Clients with whom you cannot establish any rapport
- Clients overly concerned about fees
- Clients where you don't interact with the decision maker
- Clients where the source of payment is not the client

What are some precautions?

- Client screening committee
- Engagement letters
- Withdrawal letters



Discussion

What techniques have members used

successfully to avoid problem clients?



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Thank You

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