

PROFESSIONAL RISK MANAGEMENT BULLETIN

Technical Bulletin
Managing the professional liability of accountants (N1)
(Issued July 1999)

PART II - Executive Summary

18. It is not possible either in law or in fact to guard against every circumstance in which a member may risk incurring liability for professional negligence. However, as discussed below, there are a number of opportunities available to members to assist them in managing their liability.
19. This Bulletin recommends that members should consider adopting the following measures:
- (a) only undertaking work which is within the member's competence (paragraphs Nos. 21-26).
 - (b) defining the scope of the engagement:
 - (i) by agreeing an engagement letter, which:
 - identifies the terms of the engagement (paragraphs Nos. 27-30);
 - defines the specific tasks to be undertaken and excludes those which are not to be undertaken (paragraphs Nos. 31-33);
 - defines the responsibilities to be undertaken by the client and makes clear where, and the extent to which, reliance is to be placed on the client or others (paragraphs Nos. 34-36);
 - specifies any limitations on the work to be undertaken (paragraphs Nos. 37-40);
 - (ii) by setting out in any report the precise work which has been carried out and, as far as possible, the work which has not been carried out, together with any limitations on the work undertaken (paragraph Nos. 41-42);
 - (c) **defining the purpose and authorised recipients of reports:**

by stating in the engagement letter and any written advice or report the identity of the intended recipient(s), the purpose of the engagement/advice/report and that the advice/report should not be relied on by any other person or for any other purpose (paragraphs Nos. 43-46).
 - (d) **restricting the use of the member's name:**
 - (i) by advising clients in the engagement letter of the need to obtain permission to use his name (paragraph No. 47);
 - (ii) by withholding permission to use his name, where appropriate (paragraph No. 48);
 - (e) **limiting or excluding liability:**
 - (i) to the client, by a term in the engagement letter (paragraphs Nos. 49-52);
 - (ii) to a third party, by a disclaimer (paragraphs Nos. 53-60);
 - (f) **obtaining an indemnity:**
 - (i) from the client or a third party (paragraphs Nos. 61-63);
 - (ii) in connection with receiverships, trust and secretarial work (paragraphs Nos. 64-65);
20. The references above identify the paragraphs where each of these measures is discussed in more detail in the rest of this Bulletin.

N1: This statement is based on similar guidance issued by The Institute of Chartered Accountants in England and Wales (ICAEW) appropriately adapted to the local context. The Society gratefully acknowledges the permission given by the ICAEW in this respect.

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