

# Covering your CAs

Bean counters without professional indemnity (PI) cover could face large risk.



"In South Africa, most professional bodies insist that their members have professional indemnity cover in place as a condition of membership," she explains. "Interestingly, the South African Institute of Chartered Accountants have never enforced this requirement.

"Despite the enormity of the risks faced by CAs, in particular those who perform audits, many remain under-insured. It is not unheard of for an accounting and audit practice to be exposed to risks four or five times their annual turnover. We settled a multi-million rand case recently where the auditor's client had been involved in dealings offshore that resulted in action being taken against the client for which the auditor was liable. There are so many ways that things can go wrong, and there's no way to foresee every possible outcome," says Naidoo.

Leppard also assists clients in disciplinary hearings with professional bodies.

"We are involved in protecting individual practitioners, CAs and professional accountants in the context of disciplinary hearings. If a client lays a complaint with a professional body, it's important to have support in the hearings, which are often used as fact-finding sessions for civil action against the individual at a later stage. It's vital that the practitioners are aware of their rights in these hearings so that they don't expose themselves to additional liability."

The types of liabilities that accountants and auditors can be faced with span industries and cross borders. It can range from divorce proceedings to diamond dealing, mergers and acquisitions to aeroplane valuations and estate planning.

"No two cases are alike, and the number of permutations is incalculable," says Naidoo. "CAs would do well to check their PI cover regularly with their brokers." 

One afternoon, a chartered accountant (CA) was sitting in his office auditing the books of XYZ (Pty) Ltd. His mate, a private equity investor, popped his head in to say hello.

"Who are you looking at?" he asked.

"XYZ," said the accountant.

"Ah, I was thinking of pumping some cash into them. How do they look?"

"Yes ... they seem solid enough," the accountant replied.

And that was that – until XYZ went belly-up and the investor sued the accountant for several million rand for providing bad investment advice. Even though there was no fee involved and the accountant's reply to the investor was delivered in a casual conversation, the case went the way of the investor and the accountant had to settle. "Fortunately, he had enough PI insurance to cover the settlement," says Neressa Naidoo of Leppard Underwriting Managers, the accountant's underwriters in this case.

Naidoo says the number of CAs who don't have sufficient PI cover is alarming.