Engagement letter: An Agreement between the client and the CPA

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An Engagement Letter

Benefits Management

In a professional engagement, the CPA agrees, on the one hand, to comply with professional and ethical standards; you, on the other hand, agree to cooperate, to render assistance, and to compensate the CPA. An Engagement Letter clarifies these mutual obligations; it insures that the CPA and staff members understand the type of engagement to be performed and the expectations they agree to fulfill.

It's unlikely that you would enter into an important business relationship without a written agreement. Good business sense dictates that you “get it in writing.” In the past, services provided by your CPA may have been performed on the basis of an oral agreement. But the significance of the relationship between your CPA and you does warrant a written agreement. More accountants are committing these agreements to writing; they take the form of Engagement Letters.

On the five panels of this leaflet, Engagement Letters are explained for business people who may be unfamiliar with them.
An Engagement Letter Is Desirable

CPAs provide such services as audit, review, compilation, tax and management advisory services. Each service yields benefits, and in each instance the CPA assumes certain responsibilities.

An Engagement Letter spells out those services.
■ The type and extent of the services to be provided.
■ Any limitations of these services agreed to.
■ The timing and deadlines for performance.

The Letter may describe what is expected of you, the client.
■ What assistance will you provide?
■ What are the payment terms?
■ How will the fee be determined?

It is in both your interest and your CPA's interest that there be a clear, written statement and understanding of the services to be provided.

Signing an Engagement Letter Does Not Change the Relationship Between Management and the CPA

Signing an Engagement Letter does not alter the relationship between the client and the CPA, nor does it change the obligations of either party. What the letter does do is commit to writing precisely what is involved in an agreement, and thereby reduce the possibility of misunderstandings later.

Engagement Letters Should Be Kept Current

Even if there are no changes in the services provided, Engagement Letters should be reviewed periodically. This is because professional standards for CPAs change, and the scope of their services may be modified. In addition, your situation may change, which could affect your needs for CPA services. Renewal of the Engagement Letter permits reassessment of your needs for professional services.

An Engagement Letter Is Important: READ IT!

Read the Engagement Letter with care. Give it the same careful attention given to any significant agreement. Discuss its content with your CPA. Be sure you understand the services described, the limitations of the services, the fee arrangements, and any other significant provision. When you sign the Engagement Letter, be aware that you are accepting the terms of the agreement. Retain a copy of the signed Engagement Letter as you would any other written agreement.