

## Engagement Agreements

It is a good practice to prepare an engagement letter to properly define the accountant-client relationship and scope of the engagement. There are some key topics the engagement letter should address:

1. **Identity of the client.** To whom are you providing accounting services? Are your services just for the company or just for an individual or both? Are you preparing tax returns for a married couple filing jointly or for only one spouse? It is important to identify the client, in writing, at the outset of the engagement.
2. **Scope of the engagement.** It is important to advise the client both of the services to be provided and, equally important, the services which will not be provided. If an accountant is retained only to prepare financial statements, the engagement letter should identify that in writing and should clarify the services which the accountant is not providing, such as an audit.
3. **Timing of the engagement.** If the engagement is tied to a specific project and will end upon completion of the work, the engagement agreement should say so.
4. **Details of the fee arrangement.** The engagement letter should provide for how the accountant will be paid for services. Note that contingent fees are largely prohibited.
5. **Disclosure of conflicts.** If any conflict or potential conflict exists with respect to the engagement, this should be disclosed, in writing, to the client. For example, if more than one party will receive accounting services from the same accountant, potential conflicts arising from that engagement should be disclosed.
6. **Protective clauses.** Professionals, including accountants, should consider the inclusion of protective clauses in engagement agreements, such as choice of law provisions, limitation of liability clauses, and/or an arbitration clause.

A choice of law provision can be important because not all states impose the same laws concerning professional services. If the engagement agreement defines which state's laws will apply to the services provided, there will be less questions in the event of a later claim as to the appropriate statute of limitations or applicable standard of care.

Limitation of liability clauses, although not always favored by courts, should be considered in order to protect an accountant from later claims. While most courts will not allow an accountant to require the client to waive all potential future claims, some states will permit smaller limitations to liability. It is worthwhile to consider such a clause in accordance with applicable state law.

Finally, accountants should consider whether a mandatory arbitration clause would be appropriate for the particular engagement, or whether the accountant would prefer to maintain the right to adjudicate claims before a judge and/or jury.

7. **Client's signature.** The accountant should follow up with the client to obtain the client's signature on the engagement agreement.