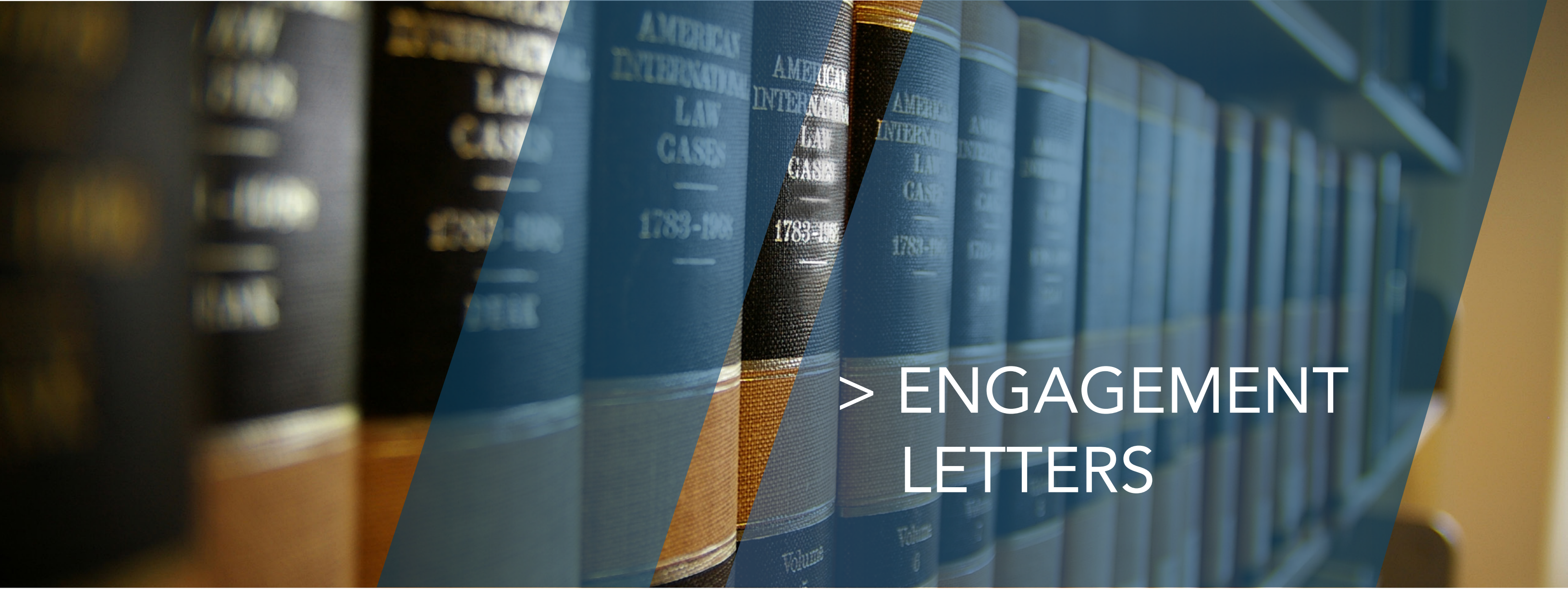

> ENGAGEMENT LETTERS

Engagement letters help you improve communication with your clients, document your engagements more effectively, and protect yourself from litigation. An engagement letter should be as detailed as possible in describing the nature and extent of the services you are being retained to perform, as well as the services that you are not being retained to perform. Similarly, your engagement letter should be as detailed as possible regarding the client's responsibilities and obligations that will facilitate the engagement (e.g., providing necessary documents and accurate information in a timely manner).

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RESOURCES FOR CAMICO POLICYHOLDERS

Engagement Letter Review Service

Our Loss Prevention Specialists are happy to review and comment on policyholders' drafted engagement letters. Please email your letters as Word attachments (not PDFs) to Loss Prevention at lp@camico.com. The specialist on duty at that time will get back to you with an estimated turnaround time to return comments on your letter(s).

CAMICO's Engagement Letter Resource Center

As a CAMICO policyholder, you have access to the Engagement Letter Resource Center on the Members-Only Site. The Resource Center includes tools and checklists that provide step-by-step guidance through the letter-writing process. It also includes more than 100 sample engagement and disengagement letters, including new and revised letters.

CPA's Guide to Effective Engagement Letters

CAMICO authored the book *CPA's Guide to Effective Engagement Letters*. The 11th edition of the book is now available and includes a CD with electronic versions of all letters, the suggested wording, and the comments, along with risk management case studies. CAMICO policyholders can access many of the letters from the Engagement Letter Resource Center on the CAMICO Members-Only Site. The book is available for purchase from CCH, and CAMICO policyholders can receive a 20 percent discount.

CAMICO has prepared the following guidelines of do's and don'ts to assist you in writing engagement letters.

ENGAGEMENT LETTERS SHOULD...

- State the purpose of the engagement.
- Define the scope and limits of the engagement (specifically what you will and won't do).
- Specify known negative conditions or adverse situations.
- Note client instructions, responsibilities, deliverables and dates.
- Note reliance on facts provided by the client.
- Outline terms of fee collections and the consequences of late payment.
- Indicate your record retention policy.

- Include a stop-work clause.
- Include third-party service provider language, if applicable.
- Confirm client's acknowledgement to the terms of the agreement and request client's signature.

Additional considerations...

- Include warnings regarding inadequate internal controls.
- Explain limitations regarding financial statement distribution.
- Include alternative dispute resolution language (i.e., mediation for all disputes and an arbitration clause for fee disputes only).
- Efficacy of limitation of liability clauses.

ENGAGEMENT LETTERS SHOULD NOT INCLUDE...

- Marketing information.
  Defer promotional information and other forms of marketing to other documents. Your engagement letter should be viewed as a contract and be composed accordingly. An engagement letter is not the place to convince a client that your firm is the answer to all their problems. An engagement letter limits your services, rather than selling your services. Wording such as, "We are particularly suited for this type of work" is appropriate for a proposal letter, but not for an engagement letter.

- All-encompassing language.
  An engagement letter should not contain all-encompassing language. Because an engagement letter limits the scope of your work, avoid superlatives and absolutes. For example, use words such as: notice, examine, follow, observe, study, investigate, test, watch and comment on. However, avoid words and terms such as all, every, analysis, any, absolute, complete, confirm, judge, determine, totally, thorough, validate and verify.

- Legal jargon or ambiguity.
  Make your engagement letter easy for your client to understand. Don't use abbreviations or words only a CPA would understand. Any ambiguity in your engagement letter will most likely be decided in your client's favor in a court of law, so keep the language simple and clear.

Additional areas to consider

- Limit the use of unilateral language to lower-risk engagements (signed engagement letters are always the strongest "first line of defense.")
- Avoid evergreen letters — update letters annually to reflect changes in the scope of the engagement.
- Avoid usurious interest charges. Instead, assess a "late fee" for unpaid balances.

GENERAL ENGAGEMENT LETTER TIPS

- Every engagement letter should include the full or exact name of the client, entity type, specific state names and tax years for tax engagements, and purpose of engagement.
- Review the letter with the client and get agreement regarding the terms and conditions before beginning the work.
- Update engagement letters at least once per year.
- Update engagement letters whenever engagements change.