

COMPLIANCE & PRACTICES

# Engagement Letters for Practices

Clear scope, limitation of liability and AML wording for accountancy practices, with model terms for referred company secretarial work.

## Why the engagement letter matters

An engagement letter sets out what the practice will do for the client, on what terms and at what price. It is the first document a practice should check when a service goes wrong, a fee is disputed or a client says that something was never part of the deal. Professional bodies expect one for each client and each significant change in the work.

A good letter is short, in plain English and specific. A weak one is long, borrowed from a template and silent on what the client thinks they have bought.

## Scope: what is in and what is out

The most useful section is the one that defines the work. State the services in a list, with the period they cover, and then say what is not included. Typical exclusions in an accountancy engagement are legal advice, company secretarial work, investment advice, tax planning not agreed in writing and work on the client's earlier years. Where a service is outside the practice's own scope and is referred, the letter should say so.

Also set out:

- **Client responsibilities.** Providing complete and accurate records on time, and telling the practice of changes.
- **Timing.** When information is due, and what happens to deadlines if it is late.
- **Fees.** The basis, when invoices are issued and the payment terms, and what happens with extra work.
- **Authority.** Who can instruct the practice for the client.
- **Data protection.** The roles of controller and processor, and a reference to the privacy notice.
- **Termination.** Notice periods and what happens to records and unpaid fees.

## Who is the client?

The engagement letter should identify the client precisely: the company, its directors personally, a group, or a family. A practice that acts for the company is not necessarily acting for its directors, and the letter should say so where there may be a difference. Where one partner or director gives instructions, record their authority.

### Key points

- The letter defines the deal. Be specific about scope and exclusions.
- State clearly what is not included.
- Limit liability within what the law allows.
- Include anti-money laundering wording.
- Say who is the client when work is referred.
- Review and reissue when the work changes.

## Limitation of liability

Many practices limit their liability to a stated sum, or to the fees charged, and exclude indirect loss. Such clauses are subject to a reasonableness test where the client is dealing on the practice's standard terms. They cannot exclude liability for fraud or for death or personal injury caused by negligence. Check the clause against the practice's professional indemnity insurance, and explain it in the letter so the client has an informed opportunity to agree.

## Anti-money laundering wording

Accountancy practices are regulated for anti-money laundering purposes, and each practice has its own supervisor and duties. The letter should explain, in plain terms:

- that the practice must carry out customer due diligence and may need to ask for identification
- that it must report suspicions to the authorities and may not be able to tell the client
- that it may be unable to act or may have to stop acting until due diligence is complete
- that the client agrees to provide the information on request

## Referred company secretarial work

Where the practice refers company secretarial work to MTM, the letter should say so, and set out how the arrangement works. Model terms cover:

- **Who is the client.** Whether the client instructs the practice, which instructs MTM, or MTM instructs directly. In a white-label arrangement the practice remains the contact.
- **Scope and responsibilities.** What MTM will do, and what remains with the practice, such as tax advice.
- **Fees and who pays them,** and whether MTM's fees are passed on or absorbed.
- **Data sharing.** That the client's details will be shared for the purpose, and who is the controller or processor.
- **AML reliance.** Whether the practice's customer due diligence is relied upon, and on what basis.
- **Reserved legal activities.** That MTM is not authorised to carry them out.

## Keeping letters current

Review letters yearly and when the work changes. Keep signed copies and a note of any variations.

### Before you start

- What services are being supplied?
- What is excluded?
- Is liability capped and insured?
- Is AML wording up to date?
- Is any work being referred?
- Is the letter signed and dated?

### How MTM can help

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We can supply model terms for referred company secretarial work, prepare a short schedule for your engagement letter, and check how our service fits into it. For a white-label arrangement we work in your name and to your branding. The wording of your own engagement letter stays with you and your professional body.