

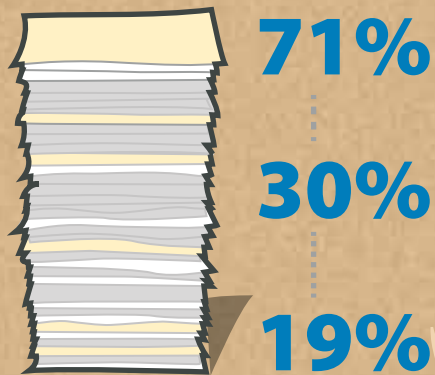
# Setting expectations

CPA firms can use engagement letters to define the scope of services they intend to provide clients. The information in this graphic shows, among other things, the benefits of using engagement letters, the liability risks associated with failing to use them, and good sources firms can use to draft appropriate engagement letters.

Compiled by Sarah Beckett Ference, CPA

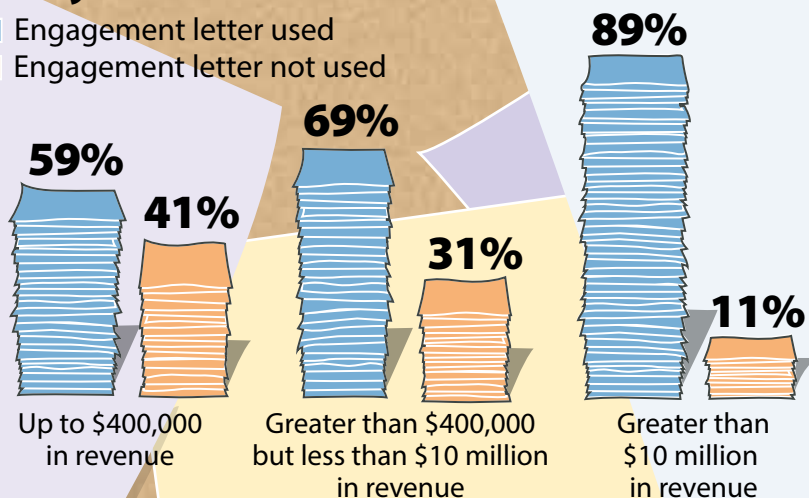
## Impact of engagement letters on claim severity:

Increase in the average dollar amount of claims when engagement letters are not used. The largest firms (greater than \$10 million in revenue) saw the greatest increase, 71%. Firms with up to \$400,000 in revenue saw a 30% increase; firms with between \$400,000 and \$10 million in revenue saw a 19% increase.



## Engagement letter use by firm size:

■ Engagement letter used  
■ Engagement letter not used



Sources: CNA Claim Database; closed claims Jan. 1, 2013, through June 30, 2017. Underwritten by Continental Casualty Co. Copyright © 2017. All rights reserved. CNA Risk Control Database, underwritten by Continental Casualty Co. Copyright © 2017. All rights reserved.

## How engagement letters help manage professional liability risk:

### • Claim prevention

- o Manage client expectations.
- o Define scope and CPA firm/client responsibilities.
- o Establish termination provisions.

### • Claim defense

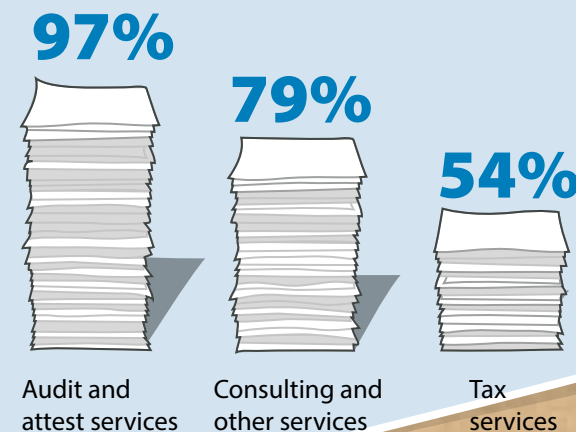
- o Establish limitations of service.
- o Define scope of service.
- o Restrict statute-of-limitation period.
- o Define venue for dispute resolution.
- o Restrict use of CPA firm deliverable, where appropriate.

### • Claim severity

- o Limit liability, where appropriate and permitted.
- o Require alternative dispute resolution.

Source: CNA Accountants Professional Liability Risk Control team.

## Percentage of claims asserted against CPA firms in the AICPA Professional Liability Insurance program for which an engagement letter related to the service was present, 2016:



**'The engagement letter is the first line of defense in any claim and helps define a CPA's relationship with his or her clients!'**  
— Nancy Reimer, J.D., LeClairRyan

## Sources for sample engagement letter language:

- AICPA professional standards for relevant service.
- Professional liability insurance carrier.
- AICPA section memberships, such as Tax, Forensic and Valuation Services, and Personal Financial Planning.
- Paid providers of guidance and practice aids.

Sarah Beckett Ference (sarah.ference@cna.com) is a risk control director at CNA. Continental Casualty Co., one of the CNA insurance companies, is the underwriter of the AICPA Professional Liability Insurance Program. Aon Insurance Services, the National Program Administrator for the AICPA Professional Liability Program, is available at 800-221-3023 or visit cpai.com.