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.

### 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.

<table>
<thead>
<tr>
<th>Firm Size</th>
<th>Engagement Letter Use</th>
</tr>
</thead>
<tbody>
<tr>
<td>Up to $400,000 in revenue</td>
<td>59%</td>
</tr>
<tr>
<td>Greater than $400,000 but less than $10 million in revenue</td>
<td>69%</td>
</tr>
<tr>
<td>Greater than $10 million in revenue</td>
<td>89%</td>
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</tbody>
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### 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:

- Audit and attest services: 97%
- Consulting and other services: 79%
- Tax services: 54%

### Engagement letter use by firm size:

- 71% for firms greater than $10 million in revenue
- 30% for firms between $400,000 and $10 million in revenue
- 19% for firms up to $400,000 in revenue

### 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.