

Compilation Engagement Letters

Obtaining signed engagement letters has always been a great practice. Agreement on the scope of engagement, definition of client responsibilities, limitations of the engagement, completion of the engagement for statute of limitations purposes and liability insurance underwriting consideration have long been benefits accruing to those who will complete the effort to annually obtain a signed engagement letter. For compilation engagements the practice of obtaining signed engagement letters is now required for engagements with year ends occurring after December 15, 2010 under AR Section 80 of the Professional Standards.

Professional Standards are typically embraced by state statutes, administrative codes or state board of accountancy rules. As a result, failure to obtain a signed engagement letter in a compilation engagement may subject the CPA to discipline by the state licensing board. In a malpractice action, breach of professional standards and/or discipline by a state licensing board can present difficult obstacles in defending a claim.

For years there have been many “carrots” to lure the CPA into the practice of obtaining signed engagement letters for compilation engagements. Today the “stick” of standards’ requirement to obtain the signed engagement letter effectively requires the practice.

In addition to requiring that the CPA obtain an engagement letter, AICPA standards also address a set of minimum issues that should (read must) be addressed in a compilation engagement letter. The AICPA Standard further distinguishes between compilation engagements where third party users are expected (a compilation report is issued) and engagements where no report is to be issued. Separate engagement letter minimum requirements apply to the two different types (report and no report) of compilation engagements.

Protexure’s Risk Management Team has prepared two separate sample engagement letter templates, one for compilation engagements intended for third party use and another for engagements where no report is to be issued.

This template is available to insureds only by logging into the Protexure Accountants Members Only area of our website. If you have questions on access please call us at 888-803-9898 and we will be happy to assist you.