

# CLIENT ENGAGEMENT DOCUMENTATION

## LIVE CHAT: QUESTIONS AND ANSWERS

### INTRODUCTION

- Do I need an engagement document?
- What happens when the client doesn't return a signed letter of engagement?
- How much documentation do I need for a compilation engagement?
- Do I need to retain documentary evidence when the taxpayer is responsible for keeping records?

If you have ever asked yourself these questions and more you are not alone. Many members in practice are unsure as to the required level of documentary evidence when performing an engagement, particularly for activities that are not audit and assurance related.

While the Accounting Professional and Ethical Standards specify requirements and provide guidance, CPA Australia's Quality Review Program continues to identify some shortcomings.

For some members, a lack of documentary evidence has led to more serious implications in relation to their compliance with the Accounting Professional and Ethical Standards.

The experts who addressed members' questions were:

- Josephine Haste CPA, Manager – Quality Review Education, CPA Australia
- Caroline Karavias CPA, Technical Adviser – Quality Review Education, CPA Australia
- Dr Eva Tsahuridu, Manager Accounting Policy – Policy and Corporate Affairs, CPA Australia.

## PRIMARY RESOURCES

- [APES 305 Terms of Engagement \(the Standard – overview\)](#)
- [APES 305 Terms of Engagement \(the Standard – in full\)](#)
- [APES 110 Code of Ethics for Professional Accountants](#)
- [Client engagement documents](#)
- [Non-audit engagement letter checklist](#)
- [Client Relationship Guide](#)

## QUESTIONS AND ANSWERS

### **Do letters of engagement work?**

They most certainly do. Engagement letters document expectations and provide clear instruction outlining the responsibilities of both the accountant and the client – particularly relevant for company secretarial engagements where the services can be varied. In disputes between clients and accountants, the engagement letter is most heavily relied upon by legal representation.

### **What happens when the client doesn't return a signed letter of engagement? And is there a minimum job fee that is applicable when an engagement letter is required?**

APES 305 *Terms of Engagement* does not require that a letter of engagement is signed. In paragraph 3.5 it states: 'The Terms of Engagement need not be in the form of a letter or agreement. For example, a standard format handout, brochure, leaflet or electronic communication is also acceptable.'

However, we consider it best practice to have an engagement letter that is signed or have a return email from the client to the engagement letter, where the client states that they have read and understood the terms. After the engagement letter is issued, it should be at the top of any checklist that the client returns a signed copy of the engagement letter. If a specific engagement letter is not used, have the client initial a copy of the brochure or other form of communication.

There is no minimum job fee when an engagement document is required. Every engagement requires an engagement document - regardless of level of fee - that sets the terms and conditions that are agreed between the client and public practitioner for the engagement. The engagement document should set out how fees are calculated and include agreed billing schedules. Make sure a new engagement document is issued if fees change.

### **Do you get clients to sign an additional declaration for each tax year? Or do you think that the declarations they sign in the tax return, plus the engagement letter is enough? I was given an example to use from the CPA who did my review. Thoughts?**

The law requires that each time you lodge a tax return on behalf of your clients, you have already received a signed declaration, which states that they have authorised you to lodge the document and that the information is true and correct. So you need to ask your clients to sign a Substantiation Declaration each year as the purpose of the declaration is to confirm that the client is able to substantiate any income derived and expenses incurred that are being included in their tax return. Not only does it serve as a reminder to the client of their obligations with respect to the information being included in their tax return but also as another form of evidence to protect the member and client in the instance anything comes into question.

The engagement letter is given to the client at the beginning of an engagement. For recurring engagements, the engagement document may be in place for several years, if there are no changes to the engagement, the client, the law and professional standards. The Substantiation Declaration, which is provided at the end of the engagement, is signed each year as further confirmation on the accuracy of the information that has been presented in the return and a reminder of the obligations to the client.

**I have a substantiation document for every tax return, even little clients. So why is there then such a focus on engagement letters? For audit work is it so that there is a clear understanding of what an auditor is responsible for in relation to audit?**

The engagement document is an important part of any engagement and a requirement of APES 305 *Terms of Engagement*. The focus on Auditor engagement letters is due to ASA 210 *Agreeing the Terms of Audit Engagements* requiring auditors to have an engagement letter in place that includes very specific elements relating to the audit. As the auditing standards are made under s336 of the Corporations Act 2001 they in effect have force of law.

The main function of the engagement document is to outline the terms and scope of the engagement being performed. The absence of an appropriate engagement document allows for ambiguity as to the scope, objectives and terms of the engagement. An engagement document protects the practitioner and the client and often relied upon in a dispute. Public practitioners who do not issue engagement documents are not complying with the requirements of APES 305 *Terms of Engagement*.

The main difference between an engagement document and a client substantiation declaration is that the engagement document is issued preferably before the commencement of an engagement so as to ensure that both parties are aware of the terms and scope of the engagement, as well as to potentially avoid any misunderstandings with respect to the engagement. A substantiation declaration is provided to a client at the end of the taxation engagement and asks the client to confirm that they can substantiate any income derived and expenses incurred that are being included in their tax return, i.e. that the information is true and correct.

**In relation to compliance work only, would an email or letter to all long standing clients setting out the scope of what work is to be done and not done, each year, suffice in relation to risk protection or do you still need to do engagement letters each year for each and every client?**

For recurring engagements APES 305 *Terms of Engagement*, in paragraph 5.2, provides the following guidance:

“When determining the need to reissue or amend an Engagement Document for a recurring Engagement, a Member in Public Practice should consider the following factors:

- (a) any indication that the Client misunderstands the objectives and scope of the Engagement;
- (b) any significant changes in the Engagement;
- (c) any significant changes in the Professional Services to be provided or the Terms of Engagement;
- (d) a recent change of Client management or ownership;
- (e) a significant change in the nature or size of the Client's business;
- (f) any significant changes to Professional Standards or applicable accounting or auditing and assurance standards; and
- (g) any changes to legal or regulatory requirements.”

Our advice when considering to reissue or amend an engagement letter is always to consider how long the engagement document has been in place, what has been changed and whether, in the event of a dispute, what is in place would provide the necessary evidence to demonstrate the obligations of the practitioner and the client for the engagement that has been performed.

**We are planning to use the outsourcing services of a firm based in India. Based on CPA Australia's guidance in its engagement letter template we have introduced following paragraph to our engagement letter:**

**"We do have Outsourcing arrangements with a professional accounting firm in India whom we hire from time to time to help us in the busy period. Acceptance of our services in conjunction with this engagement document indicates your acceptance of the use of outsourced services as described. Where the outsourced service requires the disclosure of personal information to an overseas recipient a consequence of your consent is that will be required to take reasonable steps to ensure that the Australian Privacy Principles are complied with by the overseas recipients of the Personal Information."**

**Is the above paragraph good enough or we also need to mention the name of Outsourcing Firm?**

As long as you are advising your client that you are outsourcing some of the work and that you confirm that you are taking reasonable steps to ensure that the information supplied is protected then there is not a need to advise who the outsourced firm is. The agreement in terms of who the work is being outsourced to is between the practitioner's firm and the outsourced firm and as such does not require disclosure of details to the client. You should remember that you retain primary responsibility to deliver the service in line with the terms of the engagement and you need to ensure that you comply with applicable laws and regulations, such as the Privacy Act.

We suggest you also look at the guidance note:

- [APES GN 30 Outsourced Services](#), and
- [CPA Australia's Outsourced Services Guide](#)

APES GN 30 *Outsourced Services*, states, among other issues, that public practitioners should disclose the geographical location of the outsourced service provider, the nature and extent of the outsourced services and consider obtaining written consent from the client to use such services. It also states that an outsourcing policy framework and policies and procedures should be developed and communicated within the firm.

**How to address engagements that include work outsourced to third parties.**

See response to above question. The outsourcing text references comes from CPA Australia's sample terms of engagement letter/brochure. This can be downloaded [here](#).

Also, please refer to:

- [APES GN 30 Outsourced Services](#) and
- [CPA Australia's Outsourced Services Guide](#)

**Do the disclaimers in engagement letters overcome some issues which arise from PII claims, such as theft?**

No disclaimer can overcome breaking the law. As theft is a crime, an engagement letter cannot condone such actions. The engagement letter provides protection around the terms on engagement, such as the fee payable or the amount of estimated hours. The engagement letter also provides protection for the client, in that the services are clearly articulated.

## **Engagement letters for audit specifically identify that identifying fraud is not part of the audit so how can PII claims come about around this?**

While fraud may not necessarily be within the scope of the audit, there is an audit standard on fraud (ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*) which the practitioner must comply with. This standard includes making the necessary inquiries of management and obtaining a management representation letter about their internal controls to manage fraud risk. If the auditor fails to complete the audit in accordance with the applicable standards and fails to make these inquiries, then the auditor has failed to perform the audit in accordance with the applicable standards.

**Many tax returns only say “the information given to my tax agent is true and correct.” It does not say I have reviewed this tax return and agree it is correct. APES 315 also says that clients must acknowledge that the client is responsible for the reliability, accuracy and completeness of the accounting records and the disclosure to the member of all material and relevant information. I add this to my declaration signed by the client with each tax return. My declaration also says that ‘I have reviewed this tax return and the accounts and agree that they are correct based on the information supplied by me.’ By signing the tax return the client is accepting responsibility for the information contained within and therefore implies that the client has reviewed the information and agreed to it.**

The client acknowledgement required by APES 315 *Compilation of Financial Information* paragraph 9.1 relates specifically to the provision of information to a practitioner with respect to the compilation of financial information. APES 220 *Taxations Services* has a similar requirement, covered in paragraph 3.15, which requires a taxation client to be provided with three statements in writing which state:

“(a) the responsibility for the accuracy and completeness of the particulars and information provided by the Client rests with the Client;

(b) any advice given to the Client is only an opinion based on the Member’s knowledge of the Client’s particular circumstances; and

(c) a taxpayer has obligations under self-assessment to keep full and proper records in order to facilitate the preparation of accurate returns.”

If you are only performing taxation services then you would only need to ensure that the above three statements are provided to your client which would ensure that the practitioner and the client are aware of their obligations with respect to the information being provided in order to facilitate the preparation of the taxation return.

**I just had a CPA review and the only shortfall that my reviewer came across was not updating my letters for engagements for existing clients.**

Your engagement documents should be updated when any change to the services, client, laws and regulations, scope, charges, etc. occur. Please see paragraphs 5.1 and 5.2 of APES 305 *Terms of Engagement*.

**Do we need to prepare client engagement letter for every single individual client of tax return?**

The simple answer is yes. However, you do not need to produce a letter for every client. APES 305 *Terms of Engagement* refers to the requirement to document and communicate the terms of the engagement in an engagement document. For individual tax returns, you can issue a standard engagement brochure, leaflet or handout. It is important that your client understands the engagement, as well as your and their own responsibilities. The engagement document protects both yourself and your client from many misunderstandings.

### **How do we make sure we have proper engagement documents in the case of existing clients, when there are new matters that may seem like part of existing engagement?**

If anything new takes place that alters the original engagement in any way, you would need to issue a new engagement document. Please see section 5 of APES 305 *Terms of Engagement*.

### **What documents does the accountant need to retain when they prepare accounts in an accounting package, entering transactions directly from supporting documents supplied by the client. The supporting documents are later returned to the client. Is it satisfactory just to keep copies of matters that may be contentious?**

Preparation of financial information is covered by APES 315 *Compilation of Financial Information*. Paragraph 8.1 requires that documentation prepared is such that it:

- (a) provide a sufficient and appropriate record of the procedures performed for the Engagement;
- (b) identify the sources of significant information the Member has used in the compilation of financial information; and
- (c) demonstrate that the Engagement was carried out in accordance with this Standard and all other Professional Standards applicable to the Engagement, including policies and procedures established in accordance with APES 320 Quality Control for Firms, and any applicable ethical, legal and regulatory requirements.

We would recommend that not only do you keep working papers of those matters considered to be contentious but also any file notes, checklists and other documentation used to perform the engagement. Retention of such documentation is dictated by your monitoring policies and procedures outlined in your quality control manual.

### **For an individual tax return, can we rely on terms of engagement on our website and only issue engagement letters where we produce financial statements?**

No, you cannot rely on information on your website instead of a document unless the document refers to the website and the client would need to acknowledge seeing and understanding the content on the website. We would generally suggest that all terms which you want communicated to your client be placed in one document. Over time, websites can be changed and if the information you referred to in your engagement document has been removed, this could create risks for the practitioner and client.

### **What are the consequences if you undergo a quality review and it is found that your engagement letters are not adequate?**

This will generally result in an assurance outcome. An assurance outcome has three sub-categories depending on the nature and risk associated with the breach. We would guide you to the appropriate resources to make the necessary rectifications for your engagement letters. Failure to issue an engagement letter will generally not result in a follow up review recommendation, unless you have failed to issue an engagement letter to an audit client - as the auditing standards require specific inclusions be made in an engagement letter. Non-compliance with the audit standards generally results in a follow-up review recommendation.

### **I am new to public practice. Does CPA Australia have recommended proforma templates for client engagement?**

The link in our introductory text to today's session contains the sample engagement letter template and can also be found [here](#).

The template engagement documents are located in the Public Practice Toolkit in the [Client Engagement section](#) of the CPA Australia website.

**We don't offer Tax services. Rather, as Virtual CFO's we offer Management Accounting services. What client documentation is required in this case?**

Any public accounting service as defined by CPA Australia's By-Laws requires the PPC holder to issue an engagement document. This document would include the scope and nature of the service, what you will and will not provide, as well as your fee structure. Please see section 4 of APES 305 *Terms of Engagement* about the content of the engagement document.

**What happens if a current & ongoing client doesn't sign the engagement letter, should we do the work?**

The standard actually does not require the client to sign any engagement document. However, please note the different requirements for audit services. CPA Australia considers it best practice for clients to sign or initial engagement documents, as this provides you with evidence that the client has seen and acknowledged receipt of your engagement document. For individual tax return clients, this may be simply an initial on a copy of the brochure given to the client.

**If you use an engagement brochure for salary and wages tax returns, and you don't require the client to sign it (which I know is not best practice) how do you confirm that you sent the engagement document to the client and how would you prove that in a Quality Review?**

For quality review purposes there needs to be evidence that the client has been provided an engagement document. This evidence may be in the form of a template that is used and then a file note in the client file documenting when sent, or it could be a copy of an email sent to the client (confirming the engagement document has been provided) on the client file. However, we urge you to also ask the client to confirm receipt, understanding and acceptance of the terms of the engagement.

**Who should normally sign the engagement letter (client side) to confirm and acknowledge the terms of engagement?**

Normally it is the client who should be the person to sign the engagement letter. In the absence of the client being able to sign additional evidence may be required to show that the client has received and understood the terms and scope of the engagement.

**Are engagement letters required when preparing returns for friends and family for no charge?**

Yes, the standard does not differentiate between paid and unpaid work. Pro bono work is covered by the standard. Regardless of whether you do the work from your office or via eTax, you must still issue an engagement document. If you are not a member in public practice, you still need to comply with APES 220 *Taxation Services* as the standard is applicable for members providing Taxation Services, and it requires compliance with APES 305 *Terms of Engagement*.

**Do you have a template for the substantiation declaration document?**

Currently CPA Australia does not have a template substantiation declaration. We are happy to investigate whether there is a need to develop one. Please email [livechats@cpaaustralia.com.au](mailto:livechats@cpaaustralia.com.au) with your request (please also include member number).

**For Public Practitioners are the requirements of APES 305 *Terms of Engagement* same with that of Tax Practitioners Board's code for tax services?**

We are not familiar with the TPB's code for tax services. All of CPA Australia's members must comply with the APESB standards, as such, use these as your reference point.

**In our engagement letter there's a clause: 'As agreed, our services will be provided to you on a fee for service basis based on our standard schedule of fees. A copy is available on request.' I've been advised with my reviewer that I don't need to update the engagement letter if only there's a change in the fee structure as the engagement letter refers to our standard fee schedule.**

**Is there any problem with this?**

Unless the engagement document refers to specific amounts, either on a fixed or hourly rate, there is no need to re-issue the document for changes in fee structure if the updated fee schedule is referred to in the engagement document, its availability is provided as you have done, and clients are made aware of the changes. As the issue is: how would a client know if the fee schedule has changed? You may consider including in the engagement document advice to your clients to refer to the fee schedule at least twice a year for any updates.

**In respect of your answer to the question on who should sign engagement letters as the client, is a company client bound by the terms if their employee accountant signs for the client, or does it have to be a director signing, or even a director authorised to sign on behalf of the whole board?**

It is whoever has authority to sign on behalf of the entity. Essentially that would be an authorised representative of the company. We would suggest that an employee of the company is not appropriate unless that employee is an executive director with appropriate authorisation.

**Does the engagement letter have to be physically signed? We attach our letters to an email and in the email we write: "Kindly review the attached and confirm acceptance of our engagement by replying to this email with 'Yes, I confirm your engagement'." Is this sufficient?**

Yes, that is sufficient and good practice. The standard does not require the engagement document to be signed, however we consider it best practice to have the client acknowledge receipt and acceptance of its terms. This provides you, the practitioner with added protection.

**With the ever-changing environment, there are so many things we do for our clients. Mine get quite annoyed if I send them a new letter for everything. Is there general terminology that can be used to cover a range of services or do they need to be specific? Compliance is now only a part of what we do.**

APES 305 *Terms of Engagement* requires an engagement document to be in place for the terms and scope of the engagement. There isn't any general terminology as the engagement document needs to be specific and tailored to each individual engagement. We do have guidance in our sample engagement documents.

For recurring engagements any significant changes to the engagement would require the engagement letter to be reissued. For minor amendments this may not be necessary. Please refer to section 5 of APES 305 *Terms of Engagement* for further guidance.

**We provide 'mobile' taxation services, mainly preparing 'mum-and-dad' returns that have no complicated arrangements; do we have to fully comply with the rigorous requirements of the engagement process?**

Yes, you do. If you are a member of CPA Australia, you must comply with the APES, although APES 305 *Terms of Engagement* only applies to members holding a public practice certificate (PPC), APES 220 *Taxation Services*, applies to all members and this standard requires compliance with APES 305 *Terms of Engagement*.

**We are new to public practice, is there anything in particular we need to be more careful with?**

Have a look back at your Practice Management segment materials, this will provide you with a good overview and steer you in the right direction with what is available to you via our public practice tool-kit. None of this however,



substitutes your reading of the standard. APES 305 *Terms of Engagement* is quite a quick and easy standard to read. Make sure you understand your obligations in relation to it and all other standards.

**Can we send all the correspondence with clients, including Notice of Assessment, via email attachment?**

You can send correspondence to clients via email but you need to ensure that each client consents to having information sent to them in this manner.

**Do I have to advise clients of updated engagement terms if there is a legislative change that applies to everyone, such as the safe harbour for taxpayers from tax agent errors?**

Yes, any change to scope, regulations, services, fees, structure etc. must be communicated in an updated engagement document. Please see section 5 of APES 305 *Terms of Engagement*.

**My engagement letter says that my software and journals belong to my office, I just had a client leave and ask for all my journals as proof of my work before paying me, are they entitled to see all that?**

You have clarified document ownership in your engagement letter by stating that the information belongs to you. However, it may be prudent to allow the client to see the information before exploring other options.

Where there is a fee dispute it is often thought that a member can claim a right of lien over the work performed by the member for a client. Whilst such a remedy may be potentially available it should be stressed that a member should appropriately explore all opportunities (e.g. mediation, litigation or initiating debt recovery action) to recover outstanding fees before exercising such a right, and that it would be prudent to seek independent legal advice on whether such a right can be exercised.

Members are also reminded that although a legal right to exercise a lien may exist, members are also expected to act in a professional and ethical manner when dealing with clients. Compliance with the fundamental ethical principles contained in APES 110 *Code of Ethics for Professional Accountants* is mandatory. Section 270 of the Code states that a member in public practice shall not assume custody of client monies or other assets unless permitted to do so by law and, if so, in compliance with any additional legal duties imposed on a member in public practice holding of assets.

For more guidance please refer to the [client relationship guide](#).

**We have many clients that are in a group, say one client has 2 companies, a trust and themselves individually – are we required to have separate engagement letters for all or are we allowed to have all entities in one letter?**

That depends on the structure of the entities. If all entities have the same management or directors, for example Mr and Mrs Jones run a business, have a superfund, a trust and individual tax returns, then yes, these can potentially all be included in the one engagement document, however it would need to be a substantial document to appropriately outline the scope of services for all of these entities. Please remember that each engagement's terms for the provision of professional services must be communicated with the client. So, if there is one client and one engagement then there needs only to be one engagement document.

The other consideration is ensuring that you are satisfying APES 220.3.14 and APES 220.3.15 which might require you to obtain evidence of all clients within the group being provided the requested information separate to the engagement document.

**We charge fees based on a package not by hours. The package fee is specified in the engagement letter. So, there is no schedule of standard hourly rate. Is that ok with reviewer? Do I need to prepare timesheet to show my client (if they ask) to prove the fee charged?**

If the package fee is included in the engagement letter, this will be acceptable to your reviewer. If your client asks for substantiation of the fee, then yes, you do need to provide that.

**In a financial planning context, given that each client is provided with a comprehensive Financial Services Guide (detailing the scope of work that a financial planner can address, their authorisation under law to perform the services offered and the detail of their qualifications, experience and method of charging for services rendered); supported by a fact find document that details the client's disclosed financial circumstances, their goals and objectives, their timeframe - and specific limitations or breadth of the engagement, together with details of the cost of the specific advice service; then followed up with an advice document that reiterates the key elements of those agreements and understandings - and culminates in an Authority to Proceed, signed by the client, is there a requirement to supplement all of this with a prescriptive Letter of Engagement. [Note: take it as a given, that all of the elements of the prescribed letter of engagement are covered in the above documentation.]**

An FSG alone is not an engagement document as it does not cover all the content that an engagement document under APES 305 must provide. However, it can be referred to in an engagement document so that information is not duplicated.

**Where an engagement letter is prepared for a company with three directors, do you believe it's best to get all three directors to sign the engagement letter, or is one director signatory satisfactory?**

That depends on what the constitution of the client company requires. The engagement letter should be signed by a director with appropriate authority to contract services up to specific monetary amounts. For example, one director may be authorised to contract transactions up to \$10K, but two directors or three directors may be required for anything above this amount.

**You say the client should initial as acceptance of an engagement brochure. If the brochure is given to the client how do you prove the it has been given to the client?**

A file note will suffice which states that the engagement document was provided on a given date. However, you should also seek to have evidence that you asked the client consent. Paragraph 4.10 of APES 305 *Terms of Engagement*, states:

'Confirmation by the Client: Request for a response from the Client confirming its understanding of the Terms of Engagement as outlined in the Engagement Document. It is preferable for this confirmation of Client acceptance of the Terms of Engagement to be obtained in a written form.'

**I have provided the client with an engagement letter with the services to be covered and provided a fixed fee (and included my hourly rate for any additional work to be provided). If I prepare for example an amended BAS or provide additional general tax advice can I charge at my hourly rate without providing another engagement letter?**

If your engagement document addresses the objectives and scope of the engagement, then you should not need to provide an additional engagement letter. If you are going to be offering services that are not covered in the existing engagement document, then that would be a new or altered engagement and you would need to communicate its specific terms

**Are there any issues with the following scenario: The client hasn't returned an engagement letter and this fact was picked up in the following financial year. In the following year, an engagement letter is prepared stating the tax agents understanding of the engagement and stating that the engagement period commenced the prior year.**

APES 305 *Terms of Engagement* provides guidance in paragraph 3.3 which says that "It is in the interests of both the Client and Member in Public Practice that the Member in Public Practice documents and communicates the Terms of Engagement, preferably before its commencement, to avoid misunderstandings with respect to the Engagement."

Further guidance is provided by paragraph 4.10 which says "Confirmation by the Client: Request for a response from the Client confirming its understanding of the Terms of Engagement as outlined in the Engagement Document. It is preferable for this confirmation of Client acceptance of the Terms of Engagement to be obtained in a written form."

So it really depends on what has been included in your engagement document as to whether recurring engagements are covered and whether you have requested the return of the signed engagement document by the client. You may have other evidence that indicates the client has accepted and understood the terms of the engagement.

**For engagements involving the preparation of individual tax returns, I note we can issue a standard engagement brochure, leaflet or handout. Our firm produces such a brochure which is always in our reception area for clients to read and take. We also publish the same details on our website. Plus all clients sign a separate substantiation declaration attached to every tax return we do. For more involved tax engagements, (i.e. business tax returns) we issue a specific engagement letter. Is this sufficient, as I don't really want to prepare a separate engagement letter for every individual taxpayer?**

No, it's not. You need to have evidence that you have given the client the engagement document, not just hope that they happen to pick one up in your reception area. You need to draw their attention to the document and encourage them to familiarise themselves with it. You should also seek to obtain confirmation of their understanding of the terms of the engagement.

**For individual tax return, if a brochure is sent when the tax return is completed and ready to sign by email, would that be ok? Note that we have spent time on the return already. What date should the client date the brochure?**

The agreement between you and your clients for each engagement should occur before commencement.

Paragraph 3.3 of APES 305 *Terms of Engagement* states:

It is in the interests of both the Client and Member in Public Practice that the Member in Public Practice documents and communicates the Terms of Engagement, preferably before its commencement, to avoid misunderstandings with respect to the Engagement.

Email acknowledgement from a client is acceptable, the engagement document does not need to be physically signed. Make sure you attach the email from the client confirming acceptance of the terms of the engagement. The client can only confirm that they have received, understood and accept the terms of the engagement after they have been communicated to them.

**In response to the financial planning documentation you have only addressed the engagement conditions as though the FSG is the only relevant document: in posing my question, I also indicated that the client indicates the scope and cost of the engagement in the fact find document - and has all of the terms and conditions of the engagement reiterated in the advice document, that they sign on 'acceptance' of the recommendations made. The question is, does the combination of these documents, which together cover all of the requirements of APES 305, satisfy the requirement for the documentation of the terms of the engagement (and substitute then, for a letter of engagement)?**

If the combination of all the documents you have referred to clearly contains the terms and scope of the engagement you are providing and satisfies the guidance offered in section 4 of APES 305 *Terms of Engagement*, as well as provides evidence that there is a clear understanding between you and the client, then this should be sufficient.

The requirement of APES 305 *Terms of Engagement* paragraph 3.1 and 3.4 is to document and communicate the terms of the engagement in an engagement document. This document make take different forms depending on the engagement being performed.

**I have a CPA Quality Review coming up and I realise now that I may need to catch up some engagement letters for some clients for prior years, especially for individual returns. What can we do now? Can I send emails to my clients to ask them that they are okay with the services provided and fee charged in the past?**

Yes, you can and we suggest you should. Make sure that you have engagement documents that cover all engagement periods for all engagements. While you do not have engagement documents in place, you are not complying with the requirements of APES 305 *Terms of Engagement*.

**I am one of the two directors of our accounting company. I am the only person being the auditor of SMSF. The financial accounts are prepared by the accounting staff and I do the audit. However, we only separate audit working papers and accounting work papers into two sections within the same box file. Will this practice have any adverse implication on my independency as the auditor?**

Yes, as outlined in APES 110 *Code of Ethics for Professional Accountants* and the joint accounting bodies ['Independence Guide'](#) this is a breach of the Standard. There needs to be complete segregation of files to obtain compliance with the Standard.

#### **GENERAL COMMENT POSTED BY A MEMBER**

There are probably some more formal words written about the purpose and value of a letter of engagement for a public practitioner, but the following might help those who struggle with the need for a formal document, to accept the standard and ensure that they comply - for both their own benefit and financial protection, but also for clarity to their client:

- the engagement scope is defined (and should be specific)
- the client needs to be able to understand what the outcome of the engagement will be (and who accepts responsibility for incorrect input/ process)
- the fee arising from the engagement will be more likely to be collected if the service is delivered in accordance with the specific terms of the engagement
- the client should at least acknowledge having been presented with an identifiable document, whether by signature of that document, or by confirmation of the document identified by appropriate coding/ titling
- team members in the employ of the practitioner have a better understanding of what they are meant to be doing in the engagement if there is a clear scoping on file
- there are probably others, but these are a good start to realising that the Letter of Engagement is of benefit (value) to the practitioner: and should not be seen just as a compliance burden.

## RESOURCES

- [APES 305: Terms of Engagement \(the Standard – overview\)](#)
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- [Client engagement documents](#)
- [Non-audit engagement letter checklist](#)
- [Client engagement job sheet and checklist](#)
- [Planning checklist for client engagement](#)

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