Engagement Letters

The engagement letter is an important document because it explicitly defines the terms of your service. The engagement letter is sent to the client, and after the client signs the letter, it becomes a contract and the terms listed in the letter become legal and binding. While the engagement letter is a contract, it is still written as a business letter, so you should remember that people have an expectation of social and professional decorum for how business letters are formatted and how they begin and end. Refer to Format of Business Letter resource. Engagement letters are used by a variety of businesses: accounting, finance, consultants, and legal firms to name a few.

Engagement letters can be divided into five distinct areas: Introduction, Services, Money, Termination, and Acknowledgement and Acceptance:

1. Introduction—in the first paragraph, you will provide a basic introduction which is meant to open with good will. Do not go from Dear Somebody into the services. People like a warm up.
   - Introduce yourself and your company.
   - Thank the client for choosing your company.
   - Briefly remind the client of your expertise and your firm’s reputation.

2. Services—the second paragraph explains the services and all that it entails. This section of the engagement letter is extremely important. This is where you explain and define the services you provide, what constitutes extra services, and the methods for providing services that occur outside of the agreed upon terms. If you are not explicit and specific, your client may misunderstand and expect services that you are not willing to provide.
   - Include your primary and secondary tasks—you may bullet this information.
   - Any limitations—this is important. You must insure that your firm is not going to be held liable or be expected to do something outside of the agreed upon tasks.
   - Your client’s responsibilities—you cannot do your work without certain pieces of information from your client, so list those from the onset and give the client a time limit.
   - Confidentiality—you should explain that you will not provide his or her information to the public; likewise, if he or she wants a referral, you will need to get permission from one of your clients. Let the new client know that you must first get permission.
   - Deliverables with dates—be specific. If you are providing certain accounting services, you must tell the client when certain documents are filed. If you are consulting, give the dates that you are going to be at their physical address, the length of time it will take you to write the report.
   - Remove liability from your firm in the event your client provides you with faulty information resulting in an audit. You should have a clause in your services that explicitly removes your firm from liability for late fees etc. that occur because of the client’s lack of information or truthfulness. Whatever reason you are sending the engagement letter for, provide a “we will not be liable if clause.”

3. Money—discussions about money can seem a little uncomfortable and some people tend to be a little apologetic—don’t be. Your firm is in the business to succeed, so you will present the costs as explicitly as you can and include those services that you will bill over and above the amount you have agreed upon. This is important. Clients do not like surprises. Let the client know that travel and other types of activities will be billed.
   - Bill for skills that you and your firm provide. If you provide an hourly assessment, your client may not consider the specific skills—experience, expertise, and education all go into the fee for a service as well as the filing fees, copying fees, accountant fees, etc.
Billing information—provide the invoice dates for regular service and for additional service. Be explicit about when your firm mails out the monthly invoice and when you mail out invoices that are for additional services.

• Late fee charges should be explained for the routine invoice as well as an invoice that comes as a result of agreed upon extra services. (Mention you do not charge above those late fees that are allowed in your profession.)

• Secondary fees (travel, etc.).

• Retainer Fees (reason for the retainer, how you arrive at the amount, and what happens at the end of service with the retainer).

• Warranties—you must explain your responsibilities as far as success or failure, depending upon your services and what constitutes success.

4. Termination—your client and you should have an agreement about how to end the business relationship.

• Explain the rules for termination as far as notices from the client and from you.

• Explain the length of time you will need to provide final billing as well as copies of files and any costs that occur because of early termination.

• Explain the Length of time you will need to return retainer fees, copies of files, etc.

• End your letter from this paragraph with the traditional closing.

5. Acknowledgement and Acceptance—you must be explicit in the information that your client provides.

• Client’s company name.

• Accepted by.

• Accepted person’s printed name.

• Accepted person’s title.

• Date.

Many companies now send this very important letter via email as an attachment and expect the client to provide a digital signature. If your client isn’t prepared to do so, provide him or her with a fax number and have him or her print the letter, sign it, and fax it back to you. Companies are finding that digital storage is less expensive than hard copy.

Note: When you are sending letters, any type of letter, internationally or even outside of your own region, you should make every effort to know what the social and professional decorum is for that culture. Some cultures are offended if you open a letter and begin with business. Take a minute to know and if you are writing a letter to a region or country in which you will offend someone by jumping into the heat of the matter, take a line or two and follow that culture’s norms.