

Review Engagement Letters

AR Section 90 of the AICPA Professional Standards mandates that the CPA must establish an understanding with client management regarding the services to be performed for Review engagements. That understanding must be memorialized with a written communication with management. For Reviews an engagement letter is required under the professional standards.

From a risk management standpoint engagement letters are just good business. In addition to complying with professional standards, establishing a written understanding helps avoid client conflict and misunderstanding. Misunderstanding about the nature of a review and its scope can present professional liability challenges. The unique role of a review as a “middle ground” between the high level of assurance provided by an audit and the “no assurance” provided by a compilation makes a soundly written engagement letter a must for review engagements. The review engagement is further clouded since “reviews of quarterly financial information for public companies” differ from a “review report” for non-filers typically performed on an annual basis. Protexure’s Risk Management team has developed an engagement letter specifically for CPAs undertaking annual (or other period) review work for privately held enterprises.

This Review engagement letter, when signed annually by both the CPA and the client memorializes a clear understanding of what both parties can expect out of the engagement. Of specific importance is the growing number of malpractice claims that allege that the CPA should have detected embezzlement. By describing in detail what the parties should expect out of a Review engagement along with other client options for broader engagements the CPA may be able to reduce the likelihood of a malpractice claim.

Education of the client as to client options for additional services designed to ferret out fraud or theft is a good complement to an engagement letter describing the services the client actually selected. Let the client know that there are options for an audit and/or agreed upon procedures if the client has reason to believe that a Review is designed to detect fraud or theft.

Protexure’s Risk Management Team has prepared a sample engagement letter template to assist Protexure Customers in both complying with obligations set out by professional standards and developing a detailed understanding with the client about the scope of a Review.

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.