## **[Date]**

**[Client Name]**

**[Client Address]**

**[Client Address]**

Re: *Engagement to Audit Financial Statements and Prepare Tax Returns for* ***[Client Name]***

Dear **[Client]**:

We are pleased to confirm our acceptance and the terms and objectives of our engagement with **[Client Name(s)]** (the “Compan**[y/ies]**”) for the **[year/fiscal year/period]** ending **[Date]**, and to clarify the extent and limitations of the services we will provide.

We will perform the following services:

1. Audit the financial statements of the Compan**[y/ies]** as set forth below.
2. Prepare the federal and <state> corporate income tax returns for the Compan**[y/ies]** for the year ended 20**[XX]** **[and we will advise you on income tax matters as to which you specifically request our advice]**.

**I. Audit of Financial Statements**

We will audit the financial statements of **[Client]**, which will comprise of the balance sheet as of **[Date]**, and the related statements of income, changes in stockholders' equity, and cash flows for the year then ended, and the related notes to the financial statements. Our audit will be conducted with the objective of our expressing an opinion on the financial statements.

We will conduct our audit in accordance with auditing standards generally accepted in the United States of America (GAAS) **[or other applicable professional standards]**. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor’s judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by **[management or those charged with governance]**, as well as evaluating the overall presentation of the financial statements.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements may not be detected exists, even though the audit is properly planned and performed in accordance with GAAS.

In making our risk assessments, we consider internal control relevant to the Compan**[y’s/ies’]** preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the Compan**[y’s/ies’]** internal control. However, we will communicate with you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the financial statements that we have identified during the audit.

Our procedures will include tests of documentary evidence that support the transactions recorded in the accounts and direct confirmation of cash, investments, and certain other assets and liabilities by correspondence with creditors and financial institutions. We will not be testing or confirming every transaction. These procedures may, for example, include tests of the physical existence of inventories, and direct confirmation of receivables.

***[Note: For use with new clients to perform the first audit only]*[To perform our initial audit, we must review the working papers of your former auditors. You need to authorize [Name of Previous Auditors] to make available to us the working papers they prepared in the audit of your financial statements for the year ended [date, year]. A copy of the authorization letter is enclosed for your review and use in this regard.]**

*Responsibilities of* ***[Management or those charged with governance]*** *and Identification of the Applicable Financial Reporting Framework*

Our audit will be conducted on the basis that **[management or those charged with governance]** acknowledge and understand that theyhave responsibility:

1. For the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America **[or other applicable principles]**;
2. For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; and
3. To provide us with:
   1. Access to all information of which **[management or those charged with governance]**is aware that is relevant to the preparation and fair presentation of the financial statements such as records, documentation, and other matters;
   2. Additional information that we may request from **[management or those charged with governance]**for the purpose of the audit; and
   3. Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence. For example, your employees will type all confirmations we request and will locate any documents or invoices selected by us for testing.

We will advise you about appropriate accounting principles and their application and will assist in the preparation of your financial statements, but the responsibility for the financial statements remains with you.

As part of our audit process, we will request from management*,* written confirmation concerningrepresentations made to us in connection with the audit. We may also request written representations from your attorneys as part of the engagement, and they may bill you for responding to that inquiry.

You also acknowledge that management is responsible for adjusting the financial statements to correct material misstatements and for confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

As this engagement is not designed to be a fraud audit, management understands and accepts the inherent limitations of the audit services described in this agreement.

**[Name]** is the engagement partner for the audit services specified in this letter. Their responsibilities include supervising the services performed as part of this engagement and signing or authorizing another qualified firm representative to sign the audit report.

*Audit Report*

We will issue a written report upon completion of our audit of Compan**[y/ies]** financial statements. Our report will be addressed to the **[board of directors of [Client Name]]**. We cannot provide assurance that an unmodified opinion will be expressed. Circumstances may arise in which it is necessary for us to modify our opinion, add an emphasis-of-matter or other-matter paragraph(s). If our opinion is other than unqualified, we will fully discuss the reasons with you in advance. Also, for any reason, we are unable to complete the audit, we will not issue a report as a result of this engagement.

**[If the engagement contemplates issuing another type of report, i.e. on internal controls, insert appropriate language here about the form and content of anticipated report.]**

**II. Tax Preparation Services**

We will prepare the income tax returns based on information and documents you provide. We will rely in good faith upon the information you provide without verification unless the information provided appears to be incomplete, inconsistent or incorrect, in which case we may ask for additional information or clarification. You are confirming that you will furnish us with all the information required for preparing the returns including, but not limited to, information necessary to identify all states and foreign countries in which you “do business” or derive income, and the extent of business operations in each state or country. All information necessary to complete preparation of the income tax returns must be received by us no later than **[#]** weeks prior to the applicable due date of the income tax returns in order to ensure timely completion of those returns. We reserve the right to withdraw from this engagement if the necessary documentation is not received by this time.

Because of their special purpose, nature and format, income tax returns do not constitute financial statements prepared in accordance with generally accepted accounting principles. The tax returns will be used only for income tax purposes and will not be used as a substitute for financial statements. We may render such accounting and bookkeeping services as are necessary for us to prepare your returns. However, this engagement is not to act as your bookkeeper or otherwise create or maintain your financial books and records and does not create a fiduciary relationship.

Tax return preparation services do not constitute accounting or auditing services, and is not designed to disclose fraud, defalcations or other irregularities, should any exist. Accordingly, you cannot rely on these services to uncover fraud, employee misconduct or other similar issues, and it is your sole responsibility to safeguard your assets and establish an appropriate system of internal controls.

You will have the final responsibility for the income tax returns and, therefore, we recommend you review them carefully before signing and filing them. Please bring any questionable items or possible omissions to our attention.

The Internal Revenue Code (“IRC”) and the related Treasury regulations, as well as certain other laws and regulations, require taxpayers to disclose various transactions, sometime specifying the actual tax treatment, and frequently impose strict penalties as well as interest for noncompliance. Most of these penalties provide for an additional assessment in the event of some wrongdoing or negligence on the part of the taxpayer. However, penalties may be imposed even though there is no fraud, negligence or willfulness on your part. Accordingly, the Compan**[y/ies]** agree**[s]** to use reasonable efforts to identify all reportable transactions and promptly inform **[Accounting Firm]** if the Compan**[y/ies]** are required to disclose any transaction relevant to this engagement. **[Accounting Firm]**will inform the Compan**[y/ies]** of any such transactions that come to our attention, but the ultimate responsibility for identifying transactions lies with the Compan**[y/ies]**.

Please note that any person or entity subject to the jurisdiction of the United States (includes individuals, corporations, partnerships, trusts, and estates) having a financial interest in, or signature or other authority over, bank accounts, securities, or other financial accounts having a value exceeding $10,000 in a foreign country, shall report such a relationship. Although there are some limited exceptions, filing requirements also apply to taxpayers that have direct or indirect control over a foreign or domestic entity with foreign financial accounts, even if the taxpayer does not have foreign account(s). For example, a corporate-owned foreign account would require filings by the corporation *and* by the individual corporate officers with signature authority. Failure to disclose the required information to the U.S. Department of the Treasury may result in substantial civil and/or criminal penalties.

If you have a financial interest in, or signature authority over, any foreign accounts, you are responsible for providing **[Accounting Firm]** with all the information necessary to prepare the Report of Foreign Bank and Financial Accounts (FBAR) required by the U.S. Department of the Treasury in order for the FBAR to be received by the Department on April 15 with an automatic extension to October 15 each year. Electronic filing of FBAR reports is mandatory using the Bank Secrecy Act (BSA) e-filing system for the Financial Crimes Enforcement Network (FinCEN). If you would like **[Accounting Firm]** to submit your electronic FBAR report (FinCEN Form 114) on your behalf, we must receive a signed consent form (FinCEN Form 114a) from you prior to submitting the foreign reporting form. If you do not provide **[Accounting Firm]** with information regarding any interest you may have in a foreign account, or if we do not receive your signed authorization to file your foreign reporting form, we will not be able to prepare and file any of the required disclosure statements.

In addition, the Internal Revenue Service also requires information reporting under applicable Internal Revenue Code sections and related regulations, and the respective IRS tax forms are due when your income tax return is due, including extensions. The IRS reporting requirements are in addition to the U.S. Department of the Treasury reporting requirements stated above. Therefore, if you fall into one of the below categories, or if you have any direct or indirect foreign interests, you may be required to file applicable IRS forms.

* You are an individual or entity with ownership of foreign financial assets and meet the specified criteria (Form 8938);
* You are an officer, director, or shareholder with respect to certain foreign corporations (Form 5471);
* You are a foreign-owned U.S. corporation or foreign corporation engaged in a U.S. trade or business (Form 5472);
* You are a U.S. transferor of property to a foreign corporation (Form 926);
* You are a U.S. person with an interest in a foreign trust (Forms 3520 and 3520-A); or
* You are a U.S. person with interests in a foreign partnership (Form 8865).

Failure to timely file the appropriate forms with the U.S. Department of the Treasury and the Internal Revenue Service may result in **substantial** monetary penalties. By your signature below, you accept responsibility for informing us if you believe that you may have foreign reporting requirements with the U.S. Department of the Treasury and/or Internal Revenue Service and you agree to timely provide us with the information necessary to prepare the appropriate form(s). We assume no liability for penalties associated with the failure or untimely filing of any of these forms.

In the event that you ask us to take a tax position with respect to your tax returns or other information provided to taxing authorities that in our professional judgment will not meet applicable laws or standard, we reserve our right to stop work. We will discuss such a position with you.

If you request that our services rise to the level of a Covered Opinion, as defined by I.R.S. regulations, we will issue a separate engagement letter for the issuance of a Covered Opinion. To be of greater assistance to the Compan**[y/ies]**, we should be advised in advance of proposed transactions.

The law provides for a penalty to be imposed when a taxpayer makes substantial understatement of his or her tax liability. Taxpayers other than “tax shelters” may seek to avoid all of pat of the penalty by showing (1) that they acted in good faith and there was reasonable cause of the understatement, (2) that the understated was based on substantial authority, or (3) that the relevant facts affecting the item’s tax treatment were adequately disclosed on the return. A taxpayer is considered a “tax shelter” if its principal purpose is to avoid federal income tax. You agree to advise us if you wish disclosure to be made in your returns or it you desire us to identify or perform further research with respect to any material tax issues for the purpose of ascertaining whether, in our opinion, there is “substantial authority” for the position proposed to be taken on such issues in your returns.

In preparation you tax return, we have included tax advantages that have resulted from your investment in [\_\_\_\_\_\_\_\_]. In doing so, it is important that you be aware that we have not done any investigation of the quality of the investment or the prospect that you will profit from it, nor have we investigated the integrity of the people or entities that developed or sold you the investment. Therefore, we have simply assumed that the investment is precisely as you have presented it to us and have determined what tax consequences floe from the investment. Even that determination is not free from uncertainty given the highly complex tax laws that apply, and the aggressive positions taken by the IRS in auditing tax returns that contain tax advantaged investments. Tax-advantaged investments that appear on a taxpayers return create a risk of an IRS audit that could result in disallowance of the tax advantages taken and imposition of penalties and interest, which will require funds in defense of the audit.

Management understands that all individual shareholders are responsible for submitting their individual K-1s to their own tax preparers for inclusion with their individual tax returns.

By your signature below, you acknowledge that you are responsible for management decisions and functions. That responsibility includes designating a qualified individual, preferably within senior management, with suitable skills, knowledge and experience to be responsible and accountable for overseeing all the specific services we perform as part of this engagement, as well as evaluating the adequacy and results of the services performed. You are responsible for establishing and maintaining internal controls, including monitoring ongoing activities.

**[Optional – the next three paragraphs deal with privileged communication and may be omitted in most engagement letters unless you anticipate I.R.S. scrutiny of the tax returns prepared or otherwise believe it prudent to advise the Client in the engagement letter about such a privilege]:**

**[**Federal law has extended the attorney-client privilege to some, but not all, communications between a client and the client’s CPA. The privilege applies only to non-criminal tax matters that are before the IRS or brought by or against the U.S. Government in a federal court. The communications must be made in connection with tax advice. Communications solely concerning the preparation of a tax return will not be privileged.

In addition, your confidentiality privilege can be inadvertently waived if you discuss the contents of any privileged communication with a third party, such as a lending institution, a friend, or a business associate. We recommend that you contact us before releasing any privileged information to a third party.

If we are asked to disclose any privileged communication, unless we are required to disclose the communication by law, we will not provide such disclosure until you have had an opportunity to argue that the communication is privileged. You agree to pay any and all reasonable expenses that we incur, including legal fees, that are a result of attempts to protect any communication as privileged.**]**

As your tax preparer, we collect information provided by you from your tax organizer, worksheets, documents and discussions and information that we develop as part of the engagement. We are required to keep all information about our engagement confidential so we will not make any disclosure about you unless we have your approval or are required/permitted by law. This applies even if you are no longer a client. We are committed to safekeeping of your confidential information and we maintain physical, electronic, and procedural safeguards to protect it.

**III. General Terms of Engagement**

Our fees for the above services will be based on the time expended at our standard rates (available upon request **[or set forth here]**), plus out-of-pocket expenses, and will be billed to you **[monthly]**.

All invoices are due and payable **[“upon presentation” or “within 30 days” or other appropriate time period]**. Work may be suspended if your account becomes overdue and may not resume until your account is paid in full. If we elect to terminate our services for non-payment, our engagement will be deemed to have been concluded upon our providing you written notification of termination, even if we have not completed our work. You will be obligated to compensate us for all time expended and to reimburse us for all out-of-pocket expenditures through the date of termination, regardless of whether the services were completed by that point. If we stop work based on your account becoming overdue, we will not be responsible for any damages, tax, interest or penalties caused by or related to the work stoppage.

It is our policy to retain engagement documentation for a period of **[“seven” or other period of time consistent with applicable rule or regulation and the firm’s document retention policy]** years, after which time we will commence the process of destroying the contents of our engagement files. Through our engagement, we may gain possession of various original records, such as bank statements, invoices, cancelled checks, etc. If you would like us to return those records to you, please so advise. We may, however, need to retain copies of such records as are necessary or prudent in accordance with our professional obligations.

We may from time to time and depending on the circumstances and nature of the services we are providing, share your confidential information with third-party service providers, some of whom may be cloud-based, but we remain committed to maintaining the confidentiality and security of your information. Accordingly, we maintain internal policies, procedures and safeguards to protect the confidentiality of your personal information. In addition, we will secure confidentiality terms with all service providers to maintain the confidentiality of your information and will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of your confidential information to others. In the event that we are unable to secure appropriate confidentiality terms with a third-party service provider, you will be asked to provide your consent prior to the sharing of your confidential information with the third-party service provider. Although we will use our best efforts to make the sharing of your information with such third parties secure from unauthorized access, no completely secure system for electronic data transfer exists. As such, by your signature below, you understand that the firm makes no warranty, expressed or implied, on the security of electronic data transfers.

In connection with this engagement, we may communicate with you or others via email transmission. As emails can be intercepted, read, disclosed, or otherwise used or communicated by an unintended third party, or may not be delivered to each of the parties to whom they are directed and only to such parties, we cannot guarantee or warrant that emails from us will be properly delivered and read only by the addressee. Therefore, we specifically disclaim any liability or responsibility whatsoever for interception or unintentional disclosure of emails transmitted by us in connection with the performance of this engagement. In that regard, you agree that we shall have no liability for any loss or damage to any person or entity resulting from the use of email transmissions, including any consequential, incidental, direct, indirect, or special damages, or disclosure or communication of confidential or proprietary information.

In the event we are requested by **[“you” or “Company”]**, or are required by government regulations, subpoena, or other legal process, to produce documents or our personnel as witnesses with respect to our engagements for **[“you” or “Company”]**, **[“you” or “Company”]** will, so long as we are not a party to the proceeding in which the information is sought, reimburse us for our professional time and expense, as well as the fees and expenses of our counsel, incurred in responding to such requests.

This engagement ends upon delivery of [**“the Company’s audit report and tax returns” or other appropriate description]**. Follow up communications or responses to inquiries shall not be construed as a continuation of the engagement. Any subsequent services will be considered a separate engagement and will **[use “may” if your practice does not consistently use engagement letters]** be confirmed in a separate engagement letter.

**[Some jurisdictions do not allow the shortening of the statute of limitations and others only allow it to be shortened to a specific or reasonable time. Consult your risk management professional to determine if and to what extent the following provision is appropriate for you and complies with the law in your jurisdiction.]**

**[**All claims relating to the performance of the services rendered under this agreement must be asserted within [x years] of the delivery of the workproduct contemplated under this engagement or they will be time-barred as a matter of law. **]**

While we do not expect there to be any problems whatsoever with our relationship, misunderstandings can occur. We believe that most disagreements can be resolved to mutual satisfaction in a friendly, non-threatening environment. Accordingly, in the event of any dispute arising out of, or relating to, this engagement, the parties will first attempt in good faith to settle the dispute through non-binding mediation administered by the American Arbitration Association under its mediation rules, before resorting to litigation or similar action.

In the event that the parties fail to settle the dispute through mediation, all parties agree that any further action arising out of or relating to this engagement shall be decided by a court of competent jurisdiction **[Consider identifying a specific court to hear the dispute if local practices permit.]** by a judge sitting without a jury. **WE BOTH ACKNOWLEDGE AND AGREE THAT WE ARE WAIVING ANY AND ALL RIGHTS WE MAY HAVE TO HAVE SUCH DISPUTE DECIDED BY A JURY [please check to see if this is permissible under local state law].**

**[If you determine, after consultation with your risk management professional, that arbitration is a more appropriate dispute resolution forum, use the following paragraphs.]**

**[**Any controversy or claim arising out of or relating to this contract, or the breach thereof, shall be settled by arbitration administered by the American Arbitration Association in accordance with its Professional Accounting and Related Services Dispute Resolution Rules and judgment on the award rendered by the arbitrator(s) may be entered in any court having jurisdiction thereof.

The place of arbitration shall be **[specify appropriate location]**. The arbitration shall be governed by the laws of the State of [state]. The arbitrator(s) shall not award consequential damages in any arbitration initiated under this section. Any award in an arbitration initiated under this clause shall be limited to monetary damages and shall include no injunction or direction to any party other than the direction to pay a monetary amount. The award of the arbitrators shall be accompanied by a reasoned opinion. Except as may be required by law, neither a party nor an arbitrator may disclose the existence, content, or results of any arbitration hereunder without the prior written consent of both parties. **]**

**[Limitations of liability clauses are not permitted in public company audits as the S.E.C. deems them to be an impairment of independence. The AICPA argues that such clauses do not impair independence. You should consult with your risk management professional to determine if the following type of clause is appropriate for your firm and the specific engagement.]**

**[**Our liability relating to the performance of the services rendered under this letter is limited solely to the direct damages sustained by [the client]. In no event shall we be liable for the consequential, special, incidental or punitive loss, damages or expenses suffered by [the client] (including without limitation, lost profits, opportunity costs, etc.). Notwithstanding the foregoing, our maximum liability relating to the services rendered pursuant to this engagement shall be limited to the fees actually received by us for this engagement.**]**

**[Clauses establishing indemnification due to client misrepresentations are not permitted in public company audits as the S.E.C. deems them to be an impairment of independence. The AICPA argues that such clauses do not impair independence. You should consult with your risk management professional to determine the following type of clause is appropriate for your firm and the specific engagement.]**

**[**[The Client] hereby indemnifies its partners, principals, employees and agents, and holds them harmless, from all claims, liabilities, losses and costs arising in circumstances where there has been a knowing or reckless misrepresentation by [the Client], its management, employees or agents, regardless of whether that person was acting in a manner adverse to [the Client’s] interests. **]**

If any provision of this letter is unenforceable, the remaining provisions shall be enforced to the fullest extent possible. If any provision of this letter is deemed overbroad or unreasonable by a court of law **[or arbitrator]**, such provision shall be given effect to the maximum extent possible by narrowing or removing that aspect of the provision found overbroad or unreasonable, and enforcing the remaining portions to the fullest extent permissible under the law.

After reviewing this letter, please sign in the space designated and return it to us to confirm your receipt of this letter and your understanding of the scope, terms and conditions of this engagement. If you have any questions, do not hesitate to contact us.

We look forward to working with you and enjoying a mutually beneficial relationship.

Very truly yours,

[Insert Firm Signature}

**[Accounting Firm]**

Agreed and acknowledged:

**[Client Representative]**

**[Client Name]**