Engagement Letters Helpsheet

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Introduction

This helpsheet has been issued by ICAS to help members in practice when preparing an engagement letter for their services to a client.

This helpsheet explains the importance of considering the various areas of the relationship between advisors and their clients and issuing engagement letters with a view to safeguarding against risks that might arise. To help members put in place appropriate terms of engagement, it provides a series of sample wordings for a variety of typical engagements for both corporate and non-corporate clients. It brings together more typical engagements to encourage a consistency of approach when dealing with engagement letters and to help members manage associated risk.

The helpsheet provides best practice guidance. It does not constitute a professional standard. Given that the type of service provided, and the nature of client, will vary from engagement to engagement, professional judgement should be used in applying this helpsheet and the example wording for engagement letters should be tailored to reflect individual situations. The helpsheet is not intended to provide comprehensive advice for the preparation of engagement letters and you should refer to additional sources of information where appropriate, including legal advice if necessary.

The engagement letter is, in many ways, the foundation of a successful and mutually rewarding engagement. Although it may provide valuable reassurance to the client, for the practitioner, it is an essential document, as it clarifies obligations and the client's expectations.

Agreeing an engagement letter with a client helps avoid misunderstandings over the scope of the work to be done. It can provide a firm with protection in any dispute and is important for professional indemnity insurance purposes. You should try hard to agree an engagement letter with the client for every professional assignment you undertake and when the scope of your engagement changes.

Among other matters, a well-drafted engagement letter should clearly identify:

- the client;
- the scope of work to be done and when;
- the firm's responsibilities and those of the client in relation to that work;
- the terms under which the work is being done; and
- the commercial arrangements, including the basis of the fee and any other charges involved.

Specimen letters and model wordings provide a valuable guide for the drafting of good engagement letters. However, they should only be used as guides, not proformas. Each engagement requires a tailored engagement letter that takes the specific parameters of the work into account. Relying too heavily on standardised letters may lead to important terms being omitted and/or inappropriate matters being included. Similarly, relying on AI or software to tailor engagement letters should be approached with caution also and with output reviewed before being sent to clients to ensure they include all the relevant information and clauses.

Documenting and agreeing engagement terms in writing is compulsory for statutory audit and may be a requirement in other engagements. It is a sensible practice for other work too, and a practice that ICAS endorses.

Ethical and regulatory requirements

The introduction of this helpsheet discusses the practical value of engagement letters, but it is also important to remember that they are not simply an example of good practice. There are ethical and regulatory requirements that need to be communicated to clients.

- Para 3.2 of the ICAS Investigation Regulations includes a requirement for Members and Affiliates to ensure that any complaint received from or on behalf of a client is investigated, and if considered justified, shall ensure that reasonable steps are taken to resolve the complaint. Para 3.3 of the ICAS Investigation Regulations requires that where a complaint is not resolved to the satisfaction of the client, then the Member or Affiliate must inform the client in writing of the right to submit a complaint to ICAS

- Paras R330.3A and 330.3.B of the Code of Ethics refers to explaining the basis on which fees will be calculated. '…the arrangements agreed should be confirmed in writing prior to the commencement of any engagement, normally in an engagement letter. …'
- Para R330.5A of the Code of Ethics, Referral Fees or Commissions, refers to obtaining the client's general consent to the member retaining commission. This could be by way of the engagement letter and should include specific examples of the likely commissions the member will receive.
- International Standard on Auditing (UK) 210 Agreeing the Terms of Audit Engagements requires that 'The auditor shall agree on the terms of the audit engagement with management or those charged with governance, as appropriate' (para 9) and 'the agreed terms of the audit engagement shall be recorded in an audit engagement letter or other suitable form of written agreement' (para 10).
- The conduct of business code in the DPB (Investment Business) Handbook states that 'A licensed firm shall ensure that it is in full agreement with its clients as to the nature, scope and terms of the exempt regulated activities which are or may be provided and that it retains evidence of this agreement' (4.02); 'that clients are aware of its status under the Act. This should be communicated to the client in writing…' (4.03); and requires that 'all clients are notified in writing of the name of a senior person within the firm to be contacted in the event of a complaint and of their right to complain to the Institute' (4.07). The guidance following each of these requirements refers extensively to engagement letters and provides example paragraphs for engagement letters.
- The conduct of business code in the DPB (Consumer Credit) Handbook states that 'A consumer credit firm shall ensure that it is in full agreement with its consumer clients as to the nature, scope and terms of the exempt credit-related regulated activities which are or may be provided and that it retains evidence of this agreement' (4.01); 'that clients are aware of its status under the Act. This should be communicated to the consumer client in writing…' (4.02); and requires that 'all consumer clients are notified in writing of the name of a senior person within the consumer credit firm to be contacted in the event of a complaint and of their right to complain to the Institute' (4.05). The guidance following each of these requirements refers extensively to engagement letters and provides example paragraphs for engagement letters.
- The Provision of Services Regulations 2009 requires certain information to be available to clients and those wishing to use the firm's services. Much of this information would normally be included as part of a firm's headed notepaper and would therefore not be included in terms of business. This information would include: the name of the firm, the legal form, postal address, telephone and fax number, email address, registered office, VAT number, identity of professional indemnity insurers and geographical scope of cover. If you decide not to include in your engagement letter or terms of business the information required by these regulations, it is best practice to include a statement explaining where the information is displayed — for example, at your office or on your website. Further information is required to be given if requested.
- Professional Conduct in Relation to Taxation provides guidance on the standards expected of members involved in tax.

Enforceability and consumer rights

A further regulatory requirement arises if the client is a consumer as the Consumer Contracts (Information, Cancellation and Additional Charges) Regulations 2013 SI 2013/3134 impose specific requirements. A consumer is defined as 'an individual acting for purposes which are wholly or mainly outside that individual's trade, business, craft or profession'. Some practitioners may not act for any clients outside of the client's business or profession (in which case, these regulations are not applicable). Other practitioners offering, say, personal tax services may need to consider whether these regulations have any implications for their procedures.

The regulations draw a distinction between:

- 'distance contracts' (where, for example, the main engagement terms have been agreed without meeting face to face);
- 'off premises contracts' (where, for example, the main engagement terms have been discussed outside the firm's offices); and
- 'on premises contracts' (neither of the above).

The templates on 'Right to cancel' within the example engagement letter only apply to practitioners who envisage agreeing 'distance' or 'off premises' contracts with 'consumers'. So, even for

practitioners providing personal tax services, if the engagement terms are agreed wholly at meetings in the office, the templates on 'Right to cancel' are not applicable. However, ICAS's understanding is that there is currently little detailed case law to assist in determining when these regulations apply within the accountancy sector. So, if in doubt, practitioners may be best advised to take a prudent approach and apply these regulations. The example templates have been tailored for the provision of services. If the firm provides 'goods', then there is further guidance in SI 2013/3134.

Additionally, under the Consumer Rights Act 2015, a consumer has rights: that services must be provided with reasonable care and skill; services must comply with relevant information given by the practitioner; services must be provided within a reasonable time and for a reasonable price (if those details have not been specified in the engagement letter). The Act includes new statutory remedies which, depending on circumstances, could be a right to have the service repeated or a right to a fee reduction. Limitation of liability caps cannot be less than the total fees for the assignment. As practitioners are already obliged under the Code of Ethics to act with integrity and fair dealing, in general terms, this is unlikely to have a significant impact on practitioners. Again this Act only applies to 'consumers'.

Consumer clients for credit-related activity

In the context of credit-related regulated activities, a client is a 'consumer' who is defined as:

- an individual;
- a partnership consisting of two or three persons of which at least one partner is an individual; or
- an unincorporated body that does not consist entirely of bodies corporate and that is not a partnership.

If the client is not a consumer as defined in the DPB (Consumer Credit) Handbook, the activity is not a credit-related regulated activity.

Alternative Dispute Resolution Regulations and handling complaints

Where you enter into an engagement with a consumer, Alternative Dispute Resolution (ADR) Regulations apply. The Regulations do not make the use of ADR mandatory, but they do oblige you tell a consumer about a certified ADR provider and whether you will use them.

Examples of disputes the regulations cover include:

- terms in contracts services
- problems with delivery,
- poor service,
- hidden costs,
- unclear contract terms leading to misunderstandings over what or how a service is supplied

Business-to-business contracts are not covered by these Regulations, or where the dispute does not relate to the contract terms.

ICAS can continue to handle complaints received from consumers. You can tell the consumer that you do not intend to use the certified ADR body.

ICAS is not a certified ADR provider, if you choose to use ICAS's complaint process you must still give the consumer details of a certified ADR provider. A list of ADR bodies in the UK is available here online.

When considering a consumer complaint, at the point where your internal complaint-handling procedure is exhausted you must provide the consumer with the following information:

- a statement that you cannot settle the complaint with the consumer
- the name and website address of an ADR provider that could deal with the complaint, if the consumer wishes to use ADR
- whether you are obliged or prepared to submit to an ADR procedure operated by that provider

For most accountancy firms this will mean that you will give the consumer details of an ADR provider but you don't have to agree to use ADR. The information must be provided in a 'durable medium' - for example, a letter or an email - and it will normally form part of the final response to a consumer complaint.

BEIS has provided a guide for use by businesses.

Data Protection and GDPR

There is no express legal requirement to include data protection provisions in an engagement letter where the service provider and the client will each be a data controller (and those data controllers are independent of one another).

You must comply with data protection legislation irrespective of the contractual provisions in your engagement letter. Equally, by agreeing contractually to do so, or by repeating particular legal obligations in your engagement letter, you are potentially giving clients an additional breach of contract remedy.

Nevertheless, clients may expect to see your commitment to comply with your legal obligations in this respect. Further, the GDPR emphasises the requirements of record keeping and the ability to demonstrate adherence to the requirements and obligations in the legislation (and not simply to comply in practice).

Data processors now have direct legal responsibilities under the GDPR including being required to have a written agreement in place with the relevant data controller which meets certain minimum legal requirements. Service providers acting as data processors should be aware that they can only permit third party service providers (known as sub-processors) to process the relevant personal data where they have the written authority of the data controller to do so.

It should be noted that the provisions in the terms of business impose obligations upon the firm and, whilst these obligations reflect the requirements of the data protection legislation, you should consider the implications carefully before committing to them in order to ensure that you can meet the relevant obligations.

In some cases, data sharing/processing arrangements with your firm's clients may be complex, and you may wish to include more detailed and bespoke provisions.

You should also ensure that your data protection provisions correspond with your relevant privacy notice. Further information on data privacy notices with a template privacy notice is available on the ICO website here.

Data protection complaints policy
From 19 June 2026, under the Data (Use and Access) Act 2025, organisations are required to have a process in place for handling data protection complaints. Firms should ensure that clients and other individuals know how to make such a complaint and what to expect in how the complaint will be investigated and outcomes communicated. Including this information in the engagement letter allows clients to know this from the start of the business relationship.

What is a privacy policy and should you have one?

A data controller has an obligation to provide 'fair processing information' to data subjects, typically through a privacy policy (e.g. on a website) or a privacy notice (e.g. a hard copy form). The GDPR sets out the information to be supplied and when individuals should be provided with this information.

Data controllers are required to provide the required privacy information to individuals at the time that their personal data is collected from them or, if the data is obtained from another source, within a reasonable period of obtaining the data and no later than one month. There are limited exceptions to this requirement, for example if it would involve disproportionate effort to provide the information to them.

The 'data controller to data controller' data protection provision in the example engagement letter assumes that you have a privacy notice or policy in place.

If you adopt the 'data controller to data controller' data protection provisions in the example engagement letter, you should ensure that they are consistent with your data privacy policies and/or data privacy notices, and that they correspond with and accurately reflect your treatment of personal data in practice. For example, if you transfer data to third parties located outside of the UK, this should be reflected throughout the data protection documentation.

The data protection provisions in the example engagement letter are not intended to permit personal data to be used for marketing purposes.

Specific scenarios

Although this helpsheet covers a broad range of assignments, it does not, and cannot, provide specific guidance on the engagement letters that should be prepared for every assignment your firm is likely to undertake for its clients. The general concepts and principles adopted by this helpsheet, however, can be projected onto other areas of business and you should seek to apply them to engagement letters for all other types of assignment.

A separate engagement letter should be issued for each engagement and each client to whom a service is provided unless the service is recurring and it is agreed that a letter applicable to one year, for example, will roll forward to the next.

Acting for a group

When acting for a group of companies, it may be more practical to send a single engagement letter to the parent company of the group, for itself and on behalf of all the others. The letter should specify clearly that services to all the member companies of the group are covered. If this approach is adopted, the practitioner should check that the parent company has the authority to bind all members of the group. One way to manage the risk could be to include a warranty that the entity has the authority to sign the engagement letter on behalf of members of the group or the particular named companies within the group. It is important to define and list the members of the group and to make sure changes in the membership of the group are amended promptly.

Change in status of practitioner

If the status of the practitioner or client changes (for example through incorporation), a new engagement letter should be issued. Terms of engagement should only be varied by written agreement.

Investment business

Investment business engagement letters are not covered by this helpsheet. However, paragraphs for inclusion in the terms of business relating to investment services for firms that are not regulated or which are licensed by ICAS for investment business are included. You are advised to consult the DPB (Investment Business) Handbook. If your firm is authorised by the Financial Conduct Authority (FCA), you should seek further guidance on engagements under that authorisation.

Insurance distribution services

If a firm is conducting or is likely to conduct insurance business, there is a statement required by the FCA that must be given to the client in the prescribed format. The statement is reproduced in Part 4, section 15. Please note that, if a firm contacts a broker in order for the broker to advise a client on or to arrange an insurance contract, that firm must hold a DPB licence or FCA authorisation. Further guidance is given in schedule 6 of Part 3 of the DPB (Investment Business) Handbook.

Further guidance

A range of sources of further information and guidance on the drafting and contents of engagement letters is available. We recommend the following as useful reference material.

- International Standards on Auditing (UK) 210 Agreeing the Terms of Audit Engagements provides more detailed guidance on the preparation of audit and other engagement letters.
- The DPB (Investment Business) Handbook, Schedule 1 to part 4 'Suggested paragraphs for an engagement letter'.
- The DPB (Consumer Credit) Handbook, Schedule 4 'Suggested paragraphs for an engagement letter'.
- The ICAS 'Framework for preparation of accounts' includes guidance on non-audit engagement letters.
- The ICAS Guidance for ATOL Reporting Accountants includes guidance on engagement letters for ATOL reporting assignments.

Other useful resources

- Style privacy notice (external)
- Disengagement Helpsheet
- Disengagement checklist

Specimen letter of engagement

As a minimum, a complete engagement letter will comprise:

- an engagement letter (Part 1),
- schedules of the service(s) to be provided (Part 2) and
- terms of business (Part 3).

Sample wording

Part 1 of this helpsheet provides draft text of an engagement letter for services provided to individuals, unincorporated businesses, partnerships, limited companies registered under the Companies Act, and limited liability partnerships.

Part 2 provides schedules covering a variety of typical engagement. Additional schedules can be added to cover other services provided.

Download individual schedules:

A	Acting as auditors under the Companies Act 2006
A-A	Independent examination of a Scottish unincorporated charity or SCIO (accruals basis)
A-B	Independent examination of a Scottish unincorporated charity or SCIO (R&P basis)
A-C	Independent examination of a Scottish charity incorporated under the Companies Act 2006
B	Preparation of statutory financial statements in compliance with the Companies Act 2006
C	Preparation of non-statutory financial statements in compliance with a financial reporting framework
D	Preparation of accounts for sole trader or partnership
E	Preparation and maintenance of accounting records
F	Personal tax – individuals , sole traders and couples
F-A	Personal tax – Making tax digital for income tax
G	Trusts and estates tax returns
H	Partnership tax returns
I	Limited Liability Partnership (LLP) tax return
J	Corporation tax
K-A	Payroll services (no off-payroll working)
K-B	Payroll services (including off-payroll working)
L	Benefits-in-kind returns
M-A	(Withdrawn)
M-B	VAT returns (Making Tax Digital (MTD) for VAT)
M-C	VAT returns (Making Tax Digital (MTD) for VAT) – Northern Ireland
N	Tax investigations
O	Unprompted taxation disclosures
P	Specialist or ad hoc tax advisory services
Q	Tax credits
R	Cloud based services
S	Access to finance portal

Part 3 is a separate document setting out example terms of business (including GDPR clauses for data controllers) which are referred to in the example engagement letter wording. Where a firm has terms of business, they should always accompany and be incorporated into the engagement letter. Provision has been made for dating the terms of business so that it is clear which terms of business have been applied, as they may be updated from time to time.

Part 4 includes some additional wording that can be used to develop additional schedules or to include a limitation of liability clause in the engagement letter.

1. Corporate services
2. Consultancy services
3. Investment services
4. Consumer credit services
5. Limitation of liability
6. Alternative data protection clauses

How to use the sample wordings

According to the nature of the engagement and client type, select the appropriate text sections to form the basis of your engagement letter. Adapt the model language to suit your circumstances. We suggest that, for greater clarity, you use the sample subheadings as section headings in your letter.

Within the helpsheet, guidance and instruction are shown in ***italics***. None of this italicised text is for inclusion in your engagement letters, and you should be careful to ensure that it is removed from the final copy.

In some paragraphs, we have provided optional or alternative wording. This is shown in [square brackets] and each suggestion requires your individual consideration and possible amendment.

Some paragraphs will only be relevant to certain legal jurisdictions within the UK. This is shown in [square brackets] with the legal jurisdiction where it would be applicable noted

E&W – applicable only in England and Wales
Scot – applicable only in Scotland
NI – applicable only in Northern Ireland

We have marked with an asterisk* those areas where your firm may or may not be offering some parts of services and, again, each reference will need to be considered on its relevance to the specific engagement.

If additional specific information is needed, such as a name or year end, we have indicated this by a dotted line: .....

Paragraph numbering will in most cases automatically be updated to reflect optional paragraphs which are removed. Care should be taken when inserting any additional paragraphs to ensure that numbering remains appropriate and consistent throughout the documents.

OTHER EXAMPLE ENGAGEMENT LETTERS

Practice Support can provide additional examples for a range of different client types. This guidance relates to typical general practice work in the areas of accounting, auditing, taxation and advisory services undertaken by members. For industry-specific engagement letters for common practice services (eg, solicitors, charities, ATOL reporting, trusts, etc.), guidance can be found in industry-specific publications and manuals.

Further information and assistance

Further assistance and information can be obtained from the Practice Support team. You can contact them through the Practice Support section of the ICAS Technical helpdesk.

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