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THE PROACTIVE ACCOUNTANT

Ground rules for client engagement

CLIENT ENGAGEMENT

Within the accounting profession, we're certainly familiar with engagement letters.

An engagement letter is a written agreement to perform services in exchange for compensation. According to APES 305 (Terms of engagement), "members in public practice are required to document and communicate to the client the terms of engagement." Key elements of an engagement letter may include the following:

- Purpose, Scope and Output of the Engagement
- Period of Engagement
- Responsibilities
- Involvement of Others
- Outsourced Services
- Storage of Personal Information
- Fee for service
- Limitation of Liability
- Ownership of Documents
- Confirmation of Terms

As firms move from a compliance tax and accounting role to an advisory role, it's clear that a traditional 'engagement' letter is not adequate in truly explaining the scope of work and the nature of the professional relationship. Indeed, the absence of such an understanding is likely to lead to significant issues as the service provider and receiver try to manage expectations.

The solution for proactive firms is to move from the traditional engagement letter to a formal service agreement, where there is a contract to perform a specific service over a specific period of time in return for an agreed fee for service.

Of course, a service agreement is also an engagement letter. The point being made here is that to really engage the client, a clear effort at proactive communication is necessary. Otherwise, issues are likely to arise including:

- Uncontrolled variations in scope of work
- Significant write-offs as clients demand more
- Client dissatisfaction due to lack of review
- Scope of work becomes less relevant as client needs change.

Engagement Letters vs Service Agreements

No	Engagement Letter (APES 305)	Service Agreement / Contract
1	Clear scope of work usually focusing on tax compliance and associated services	Clear scope of work usually focusing on a broad range of services including tax, accounting and advisory services
2	Client needs are clear and related to specific service delivery	Client needs start out clear, but may vary as needs change over time
3	Open terms of engagement (perpetual, until such time that the client decides to end the agreement)	Specific start and end date for engagement, with agreement to review level of service and re-engage annually
4	Unspecified or range of fee for service, usually focusing on charge out rates	Specific fee for service, with clear guidelines in relation to procedures if work outside scope is requested or offered
5	Mutual expectations are clear in relation to legal requirements and are of primary consideration	Mutual expectations are clear in relation to legal requirements and are of secondary consideration
6	Mutual expectations are unclear in relation to communication and are of secondary	Mutual expectations are clear in relation to communication and are of primary consideration
7	Service standards including performance measures, turnaround time and responsiveness	Service standards including performance measures, turnaround time and responsiveness
8	The client seldom reviews or understands the 'fine print' within the engagement letter	There is clear effort to engage the client by going through the service agreement and explaining all aspects of the agreement
9	The client seldom signs the engagement letter before work commences	The client always signs the service agreement before work commences.

5 actions your firm should consider to really take control of the client relationship:

1. Engage the client annually and use the pre-engagement process to review client expectations and needs.
2. Take the time to go through the document with the client. Treat it as a proposal and use the time to outline both the value of the service and specific scope of work.
3. Explain mutual commitments in relation to communication and turnaround time.
4. Outline carefully what will happen if scope of work changes and ensure that there is clear, upfront agreement on new work before it begins.
5. Work does not start until the client 'accepts' formal proposal as a service agreement by signing and returning the proposal.

Document 1 – Sample Re-engagement letter

Re: Terms of Engagement – 202x-202y Financial Year

As part of our ongoing pursuit of excellence and our affiliation with [insert relevant association], each year we will outline the services we will provide for you and the fee associated with those services.

Note that this annual letter of engagement incorporates general terms and conditions as outlined in your initial engagement letter with this firm, including your obligations in relation to disclosure and record keeping, our obligations to act in your best interest and comply with the law and respect your confidentiality. If you would like to confirm these terms and conditions, please contact me directly.

1. Scope of work:

[insert or delete as required]

2. Entities to which this relates:

[insert]

3. Team

At [insert name of firm], we have a team approach to the work we undertake for our clients. This means that the most appropriate person is responsible for each part of your work. You should feel free to contact any of the following people in relation to your work.

The following persons will be engaged on your matter:

[Insert details of client services team].

Please note that other personnel may be used on this engagement as and where appropriate.

4. Fee for service and payment terms

Based on your current instructions and the scope of work outlined above, we expect that the fee for service will be between [insert lower figure] and [insert upper figure].

Our payment terms are 30 days from date of invoice. We also offer periodical payment terms to clients who would like to apportion payments over the financial year for cashflow purposes. If you would like to explore other options for payment of your account, please contact me.

5. Changes in scope of work

One of our key objectives is to ensure that our fee structure is transparent.

If we become aware of any change in scope of work or your instructions that could result in a change in fees, we will contact you as soon as practicable to discuss your options.

6. Service schedule

In order to provide a stronger, more proactive, service to all of our clients, we've initiated a schedule of work which will apply for the new financial year.

We've scheduled your work to be done in [insert quarter]. To achieve this, we'll be asking for your work in [insert month].

If, for any reason, you would prefer that your work is completed at another time, please advise us of your preference.

7. Your acceptance of these terms

This engagement letter sets out the basis on which we will act for you over the next financial year.

If you would like to discuss any aspect of this engagement, please contact directly.

If you accept these terms, please sign the attached letter and return it to us [insert date]. In the absence of a signed letter, we will assume that you have agreed with these terms of engagement.

Kind regards,

[insert name]

Document 2 – Sample Mutual Expectations Statement

To ensure the successful achievement of the objectives of the project, we have set out below our respective commitments:

Our commitment to you:

1. We will give you all the guidance, systems, processes and information needed to help you achieve your objectives and business value.
2. We will meet the agreed project deadline.
3. Should the scope of this engagement change, we will discuss the proposed extra fees with you before we commence this work.
4. If circumstances beyond our control affect this timetable, we will keep you informed of the revised timetable.

Your commitment to us:

1. You will meet the payment terms as specified.
2. You will implement everything that you commit to, unless of course there are extenuating circumstances that make it impossible to do so.
3. You will not disclose any information provided to you including this implementation plan that is intellectual property in nature to any other business.
4. You will provide access to people or information as agreed or requested.
5. You will respond to inquiries, information requests or communication promptly.
6. You will inform us immediately if there are any internal or external changes which may affect the successful completion of this project.

Document 3 – Workflow scheduling statement

Preparation

We will be implementing a new initiative for the new Financial Year to more efficiently complete your Accounting work by scheduling when we would like to receive it. This will ensure a balanced workflow for us and minimize any delays for you.

This method of requesting information is being used by other Accounting firms and is fast becoming industry practice. We have researched at a client level when work has historically been sent in the past. For the majority of our clients the date we will request your work will coincide with when it has been received in prior years.

Please note that if for any reason you need your work done sooner or later than advised we can adjust our schedule to suit your needs

In order to provide a stronger, more proactive, service to all of our clients, we're providing all our clients with an annual engagement letter confirming scope of work, scheduling of work and estimated fee for service.

We've scheduled your work to be done between October and December. To achieve this, we'll be asking for your work in September. How does this sound to you?

Follow-up

Thank you for your work received on 3rd September. I would like to confirm the scope of work as follows:
[ ]

Based on this scope of work, we estimate that your fee will be $x.

We'll inform you in advance if there is any change in scope of work that could lead to a change in this fee. We've committed to complete your work within 30 days as per our turnaround targets.

Could you please provide the following additional information so that we can start your work? [ ]

Document 4 – Sample Client Engagement Process

1. During the process of engaging a new client, the following information should be clearly explained to the client:
    a. What is to be done
    b. Who will do it
    c. How and when it will be done
    d. How much the work will cost.

2. A formal engagement letter should be sent to the client. Receipt of the signed engagement letter is required as confirmation that the terms of engagement are understood. The engagement letter should clearly outline the circumstances under which the firm will let the client know that additional scope of work may result in additional fees. The firm should keep a register confirming that engagement letters have been sent and received.

3. If the terms of engagement change during the completion of the matter / job, it is the responsibility of the person managing the matter / job to communicate proactively (in a timely manner) what has occurred and the impact that this will have on timing or cost of the job. This conversation should be recorded in a file note, letter or email.

4. A 're-engagement' letter should be sent to the client annually, either at the beginning of the new financial year or when the job is about to commence. This letter will succinctly restate the scope of work and the estimated fee range. The fee range should take into account (a) the estimated fee based on budget analysis and (b) room for miscellaneous additional time costs. Typically, the upper fee range will be between 25% and 50% above the lower fee range. The letter should outline both the scope and value of work (the benefit of the work) to the client and should be no more than 2 pages in length.

5. Special matters / jobs / projects will be subject to separate fee agreements and will be communicated to the client before the matter / job / project is commenced. A written record of any fee agreement is required. It is critical that any verbal or written agreements are communicated to the person actually completing the job.

6. Before the matter / job* is commenced, a budget time-cost analysis will be completed by the person doing the matter / job, to determine if the matter / job can be completed within the proposed fee budget. This analysis will take into account existing WIP, last year's fee and client expectations.

7. When reviewing the WIP at the end of the job, all effort should be made to invoice to WIP or to the estimated fee, whichever is higher. If, for any reason, the client is unaware of the proposed fee (not within the fee range), then the client should be informed before the invoice is completed and presented.

8. Where it is not possible to bill a client in accordance with outstanding WIP, the following potential causes of write-off should be investigated:

    a. Poor scoping of the job, including communication with the client
    b. Inadequate work-in procedures resulting in significant job pick up / put down.
    c. Poor attention to workflow and WIP during progress of the job.
    d. Excessive work required to effectively complete the job to the satisfaction of the client within agreed fee, for example in the case of a new client.
    e. Need for additional training of staff completing the job.
    f. Need for specific systems and procedures to improve workflow.
    g. Staff completing the job at too high charge out rate.
    h. Inherited low fee from previous accountant.

9. Where the firm has entered into a fixed price agreement, the onus is on the firm to clearly explain the scope of work as the project or job commences and to then identify if scope of work changes as the job proceeds. The engagement letter may incorporate a 'claw-back' clause allowing restitution to the firm or client at the end of the contract if the WIP exceeds or is less than the agreed fee.

The focus on time-cost billing should not preclude a value-pricing approach. This implies that both the client and the firm understand the intrinsic value of the work being completed and that the fee range reflects this value. Often, this means challenging the time-cost billing approach. It is especially relevant for consulting work and other special matters where market pricing is less relevant and value is subject to perception.

Document 5 - Conversations with Clients

A new way of engaging with clients

As a key element of our new way of engaging with clients, we are providing all clients with an annual re-engagement, outlining what we will do, how we will do it, when it will be done and how much it will cost. Of course, this is based on our understanding of your work. If any of this changes, we'll contact you directly to discuss your options.

This new engagement process will allow us to really take control of our tax compliance work and free up time to focus on adding more value to our clients.

What we used to do was good. Now what we do aims to make us more aligned. We are committed to better understanding your needs and objectives. We will ask questions we haven't asked in the past. We want to work with you to focus more on the future. We do this with ALL of our clients.

Mutual commitment

A key element of our new engagement process is the principle of mutual commitment. We will clearly outline what you can expect from us in relation to professionalism, quality of work and timing. In return, we require a commitment from you in relation to the work we receive from you. This will ensure that we complete tax compliance work in an efficient manner, so that we have time to add more value to you through feedback and discussion.

Scheduling of work

In order to provide a stronger, more proactive, service to all of our clients, we've initiated a schedule of work which will apply for the new financial year.
We've scheduled your work to be done between October and November. To achieve this, we'll be asking for your work in September. How does this sound to you?

Work received

Thank you for your work received on 3rd September. I would like to confirm the scope of work as follows:
[ ]

Based on this scope of work, we estimate that your fee will be $x. We'll inform you in advance if there is any change in scope of work that could lead to a change in this fee. We've committed to complete your work within 30 days as per our turnaround targets.

Could you please provide the following additional i**nformation so that we can start your work? [ ]**

Document 6 - Sample work-in procedures

No	Process	Resp	Documents	Milestone
1	Establish schedule of work to be completed for the month	Admin	Monthly budget schedule	
2	Prepare client checklist based on previous year's work	Accountant / Admin	Client checklist	To be completed when job is finished, for next year
3	Request job / Send checklist to client	Admin		Checklist to client
4	Log work in as it is received	Admin	Job Manager	Work received
5	Review work in against client and internal checklists	Admin	Work-in checklist	Initial review
6	Complete job budget and gain approval from manager	Accountant	Job budget – Billing advice firm	Budget
7	Set turnaround time and enter into workflow manager	Accountant	Job Manager	Turnaround time
8	Send fee variation letter to client if fee is significantly different to previous year	Manager	Fee Variation Letter	Fee Variation
9	Contact client to follow up missing information	Accountant and Admin	Missing information request	Missing information
10	Start job when sufficient information has been received	Accountant		Job started