

Practice Aid 1 ENGAGEMENT LETTERS

ALLIANCE FOR EXCELLENCE IN INVESTIGATIVE AND FORENSIC ACCOUNTING

BOARD OF THE IFA ALLIANCE

Edward Baskerville, CA•IFA, Baskerville Consulting Inc. (Chair)
Peter Armstrong, CA•IFA, KPMG LLP
Paul Bradley, CA•IFA, PricewaterhouseCoopers LLP
Peter Dent, CA•IFA, Deloitte & Touche LLP
David Elzinga, CA•IFA, Grant Thornton LLP
Douglas Kalesnikoff, CA•IFA, University of Saskatchewan
Arthur Lavigne, CA•IFA, LBC International Investigative Accounting Inc.
Gary Moulton, CA•IFA, Deloitte & Touche LLP
Victor Neufeld, CA•IFA, Prairie Forensic & Investigative Accounting
Gary Timm, CA•IFA, Deloitte & Touche LLP

IFA STANDARDS COMMITTEE

Douglas Kalesnikoff, CA•IFA, University of Saskatchewan (Chair)
Kay Holgate, CA•IFA, Grant Thornton LLP
Arthur Lavigne, CA•IFA, LBC International Investigative Accounting Inc.
Linda Robinson, CA•IFA, University of Waterloo
Derek Rostant, CA•IFA, KPMG LLP

Legal Reviewer: Mary Jane Stitt, LLB, Blake Cassels & Graydon LLP

© Copyright 2010

The Canadian Institute of Chartered Accountants
Alliance for Excellence in Investigative and Forensic Accounting
277 Wellington Street West
Toronto, Ontario
M5V 3H2
www.cica.ca/ifa
ifa.alliance@cica.ca

Printed in Canada
Disponible en français

Notice to Reader

IFA Practice Aids (IFA PA)

Introduction

The IFA Practice Aids supersede the Practice Aid 95-01 issued by the Investigative and Forensic Accounting Interest Group. The IFA Practice Aids will be issued from time to time to provide direction regarding matters not specifically addressed in the IFA Standard Practices and/or assistance on the use of the Standard Practices for Investigative and Forensic Accounting Engagements – November 2006 ('IFA Standard Practices') as required. The Practice Aids are developed and revised by the IFA Standards Committee and are published upon approval of the IFA Board.

Authority

The IFA Board publishes IFA Practice Aids in response to member interest or changing circumstances. These may include:

- interpretive publications expressing the views and opinions of the Board but do not have the same authority as the IFA Standard Practices
- matters requiring the IFA's consideration in situations not specifically addressed in the IFA Standard Practices
- suggested practices to provide helpful guidance to practitioners in the application of the IFA Standard Practices.

IFA Practice Aids may be withdrawn for various reasons such as:

- changes in legislation or case law
- the material is no longer useful because the IFA Standard Practices have been amended
- the material is out of date.

Effective Dates

Unless otherwise indicated, IFA Practice Aids should be considered effective the first day of the month after issue.

IFA PA – 1: Engagement Letters

Introduction

Some relevant sections of the IFA Standard Practices to consider when developing an engagement letter include:

- 200.01 IFA practitioners should establish the parameters of the engagement with their client and document these parameters, including their role, the purpose(s) and general scope of the work to be performed, the nature of any report, and, where applicable, the terms and conditions for the IFA engagement. These parameters should be established as part of the initial engagement acceptance.
- 200.02 Where possible, IFA practitioners should prepare or obtain an engagement letter for each engagement where the engagement parameters described in 200.01 are documented.
- 300.02 Each IFA engagement is unique. Accordingly, the planning for each engagement should be customized and evolve as the engagement progresses, requiring the repeated application of professional judgment:
- a. identifying the objectives of the engagement;
 - b. obtaining sufficient understanding of the circumstances of the engagement and the events giving rise to the engagement;
 - c. obtaining sufficient understanding of the context within which the engagement is to be conducted for example, any Tribunal process, laws, regulations, contracts or policies relevant to the engagement;
 - d. identifying any limitation of scope where access has been denied or information cannot be obtained or provided; and
 - e. evaluating the resources necessary to complete the work, and identifying a suitable engagement team.
- 400.01 IFA practitioners should use an investigative mindset in the identification, pursuit, analysis and evaluation of information relevant to each IFA engagement, contemplating that it may be false, unreliable and/or incomplete.
- 600.04 IFA practitioners should present their findings and conclusions in an objective and unbiased manner.

Sample Engagement Letter Outline

Firm letterhead

Date

Client Name *(in some cases the client name will be legal counsel for a party to a litigation matter)*

Client Address

Attention: *Mr./Ms. Contact*

Dear *Mr./Ms. Contact*:

Re: Agreement to Provide Professional Forensic Accounting Services

Thank you for your interest in retaining the professional forensic accounting services of *Firm Name*.

The purpose of this correspondence is to outline our understanding of the professional services you have requested and to provide an estimate of the related professional fees and expenses.

Firm Name was contacted on *(date contacted)* to discuss how we could assist with the investigation of an alleged theft of funds from *Client Name (or other general description of the services requested)*. To date we have had discussions with: *(names and titles of individuals interviewed to ascertain scope of project)* and have had a preliminary review of the following documents: *(listing of documents reviewed in evaluating the objectives and scope of the investigation)*.

When engaged by counsel consider the following phrase: We understand that our work for Counsel will be covered by the solicitor client, litigation and other applicable privileges.

Scope of Engagement

You have requested our professional forensic accounting services with respect to the following:

Listing of the engagement (S300.02):

- objectives,
- scope and parameters including relevant time period of the matters under investigation,
- your understanding of the circumstances of the engagement,
- your understanding of the context within which the engagement is to be conducted for example, any Tribunal process, laws, regulations, contracts or policies relevant to the engagement,
- reporting expectations including type and time period of the engagement.

The planning of the engagement will be customized and evolve as the engagement progresses; as a result the scope and relevant time periods may change as the engagement progresses. We will provide assistance in identifying, reading, interpreting and analyzing relevant data. Specific procedures will be established as the engagement progresses and additional information is obtained.

We understand that we may be requested to provide expert witness services.

Engagement Methodology

We will perform the engagement in accordance with Standard Practices for Investigative and Forensic Accounting Engagements. These standard practices require that we conduct the investigation utilizing an investigative mindset in the identification, pursuit, analysis and evaluation of information relevant to each IFA engagement, contemplating that such information may be biased, false, unreliable and/or incomplete (*S400.01*) and that our findings and conclusions will be presented in an objective and unbiased manner (*S600.04*). *The general description of the engagement approach may include a general description of documents to be reviewed and individuals to interview. The detail of this section will vary depending on the preliminary discussions and the sensitivities of the matter.*

We are not aware of any conflict that would affect our ability to act impartially.

In advance of obtaining sufficient relevant information and completing its analysis, *IFA Firm Name* cannot provide any assurance that it will be able to support any position. If we are providing expert witness services, our primary duty is to the Tribunal (for expert witness engagements governed by the Ontario Rules of Civil Procedure, and where the Tribunal is a court, we will provide a written acknowledgement to the court that our duty to the court prevails over any obligation which we may owe to any party by whom we have been engaged).

Professional Team

Currently we have identified (*number*) associates of *IFA Firm Name* to be potentially assigned to this investigation. The names, titles, hourly rates and qualifications of these professionals are as follows:

(Client Partner Name), professional rate - xxx/hour CA•IFA

(Other professional name), professional rate - xxx/hour CA•IFA

(Other professional name), professional rate - xxx/hour CA

The designation CA•IFA denotes a Canadian Chartered Accountant with a specialization in Investigative and Forensic Accounting.

The investigation will be led by *Client Partner Name*. *(Brief description of roles of other professionals.)*

The curriculum vitas of the professionals assigned to this engagement are attached in the Appendices. In addition to the selected professionals, other professionals and support staff may be assigned to provide technical and administrative support.

Professional Rates and Expenses

The detail outlined in this section will vary depending on the circumstances of the engagement.

Our professional rates vary based on the experience and role of the professionals assigned to the engagement. Actual total fees charged are based on the number of actual hours worked at the professional rates per hour.

Expenses shall include all reasonable out-of-pocket costs incurred in connection with the services provided on this engagement (e.g. travel, accommodation, copying of documents, telephone calls, postage, etc.). We agree to present a reasonably itemized statement of such expenses and shall provide copies of original invoice or other documentation upon request.

Our fees and expenses will be invoiced at various stages of progress. The invoices are due upon rendering. Fees and expenses are not contingent on the successful resolution of the matters that are the subject of this engagement.

As you can appreciate it is difficult to estimate the total time required to complete such an investigation and prepare reports on the progress. Any estimate of anticipated fees for services provided prior to or during the course of the work is our best estimate of the effort that will be required to complete the services based on the information available at the time. Under no circumstances shall it be deemed a maximum fee or fixed price.

We anticipate that the scope of the work described above would result in professional fees of approximately \$xx,xxx.

The expenses for out-of-pocket costs for travel, accommodation, photocopying and other costs would not be expected to exceed \$xx,xxx. Relevant taxes would be applied to all invoices.

If a phased approach is anticipated the following wording may be appropriate:

We recommend that the engagement be undertaken in phases beginning with a review of the documents you have identified (*general description of the documents*) and/or discussions with Y and Z who you have advised us are most familiar with the circumstances. The review and discussions will enable us to get a better understanding of the issues and to identify relevant information that may be available so that we can propose a preliminary work plan. We estimate that fees for Phase I will be between \$x and \$y. *The detail of this section will vary depending on the preliminary discussions and the sensitivities of the matter.*

When Phase I is completed, we propose a meeting to discuss the issues to be pursued and a plan of action, which depending on the complexity of the issues may involve further phases or could lead to a specific direction and methodology. Typically, Phase II involves information collection and analysis and if expert testimony is anticipated, Phase III is the preparation of the expert report. Prior to the commencing additional phases we will provide an estimate of our fees.

Standard Terms and Conditions

By signing this letter, both parties agree to be bound by our standard terms and conditions attached.

Agreement

If you are in agreement with the terms set out in this correspondence, please sign the copy of this letter in the space provided and return it to us for our files. The signed copy can be returned via mail or e-mail (*e-mail address*) to the attention of *Client Partner*.

If you have any questions, please do not hesitate to call the undersigned at (*telephone number*).

Sincerely,

Client Partner

IFA Firm Name

Client Name agrees to the above terms:

Name

Position or Office

Signature

Date

STANDARD TERMS AND CONDITIONS

Limitations and Restrictions

Our report is not to be reproduced or used for any purpose other than that outlined in this engagement without our written permission in each specific instance.

Subsequent to the completion of the engagement, *Firm Name* is not under any obligation to update its advice, recommendations or work product for changes or modifications to the law and regulations, or to the judicial and administrative interpretations thereof, or for subsequent events or transactions, unless Client separately engages *Firm Name* to do so in writing after such changes or modifications, interpretations events or transactions.

This is a services engagement. *Firm Name* warrants that it will perform services hereunder in good faith with qualified personnel in a competent and workmanlike manner in accordance with applicable industry standards. *Firm Name* disclaims all other warranties, representations or conditions, either express or implied.

Reporting

During the performance of the services, *Firm Name* may supply oral, draft or interim advice, reports or presentations but in such circumstances *Firm Name's* final written report shall take precedence.

Confidentiality

Firm Name will treat as confidential all proprietary information obtained from Client in the course of the engagement except as described in this section. *Firm Name* will only use such information in the connection with the performance of its services.

The above restrictions shall not apply to any confidential information that: (i) is required by law or professional standards applicable to *Firm Name* to be disclosed; (ii) that is in or hereafter enters the public domain; (iii) that is or hereafter becomes known to Client or *Firm Name*, as the case may be, without breach of any confidentiality obligation; or (iv) that is independently developed by Client or *Firm Name*, as the case may be.

Firm Name shall be entitled to include a description of the services rendered in the course of the engagement in marketing and research materials and disclose such information to third parties, provided that all such information will be rendered anonymous and not subject to association with Client.

Legal Proceedings

Client agrees to notify *Firm Name* promptly of any request received by Client from any court or applicable regulatory authority with respect to the services hereunder, *Firm Name's* advice or report or any related document.

If *Firm Name* is required by law, pursuant to government regulation, subpoena or other legal process or requested by Client to produce documents or personnel as witnesses arising out of the engagement and *Firm Name* is not a party to such proceedings, Client shall reimburse *Firm Name* at standard billing rates for professional time and expenses, including, without limitation, reasonable legal fees, incurred in responding to such requests.

When requested or required by law, subpoena or other legal process or otherwise, that *Firm Name* provide information and documents relating to Client's affairs, *Firm Name* will use all reasonable efforts to refuse to provide information and documents over which Client asserts legal privilege or which has been acquired or produced in the context of the engagement of legal counsel by or on behalf of Client, except where providing such copies, access or information is required by law, by a provincial Institute/Ordre pursuant to its statutory authority, or a public oversight board in respect of reporting issuers (both in Canada and abroad) pursuant to its contractual or statutory authority.

Where Client provides any document to *Firm Name* in respect of which Client wishes to assert legal privilege, Client shall clearly mark such document “privileged” and shall otherwise clearly advise *Firm Name* that Client wishes to maintain legal privilege in respect thereof.

E-mail Communication

Client recognizes and accepts the risks associated with communicating by Internet e-mail, including (but without limitation) the lack of security, unreliability of delivery and possible loss of confidentiality and privilege. Unless Client requests in writing that *Firm Name* does not communicate by Internet e-mail, Client assumes all responsibility or liability in respect of risk associated with its use.

Taxes/Billing/Expenses/Fees

(Note – this section may be modified to suit the engagement parameters and may form part of the body of the engagement letter.)

All fees and other charges do not include any applicable federal, provincial, or other goods and services or sales taxes, or any other taxes or duties whether presently in force or imposed in the future. Any such taxes or duties shall be assumed and paid by Client without deduction from the fees and charges hereunder.

Bills, including, without limitation, a charge on account of all reasonable expenses, including travel, meals, accommodations, long distance, telecommunications, photocopying, delivery, postage, clerical assistance and database research will be rendered on a regular basis as the engagement progresses. Accounts are due when rendered. Interest on overdue accounts is calculated at the rate noted on the invoice commencing 30 days following the date of the invoice.

Without limiting its rights or remedies, *Firm Name* shall have the right to halt or terminate entirely its services until payment is received on past due invoices.

Termination of Engagement

In the event that either party wishes to terminate this engagement, they are required to advise the other party in writing. Once written notification has been served, no further hours will be charged. All fees incurred prior to the notification will become due.

Indemnification

The necessity of this may vary from firm to firm and engagement to engagement. Legal assistance should be sought for the wording of this section if deemed applicable.

