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# Future-Ready Engagement Letters for Accounting Professionals

LEVEL 5  
CLEARANCE AUTHORIZATION

**WOODARD®**

# Disclaimer

The content presented in this webinar is provided for educational purposes only and should not be construed as legal, tax, or accounting advice. Attendees are responsible for performing their own due diligence and should consult qualified legal, tax, or compliance professionals before applying any information to their specific circumstances. Firms must ensure their engagement letters and related practices comply with all applicable federal, state, and local regulations, as well as the requirements of professional liability insurance providers.

# Agenda

- Key updates for 2026: IRS, FTC, and AICPA updates
- Adding cybersecurity and AI disclosure language
- Building trust and clarity through better language
- Defining scope: aligning work, tasks, and protections against “creep”
- Engagement letters as growth and value tools

# Key Updates for 2026

IRS, FTC and AICPA Requirements

# IRS & FTC: Data Security Obligations

- Written Information Security Plan (WISP) now required
- Based on IRS Pub. 5708 (2024) & FTC Safeguards Rule
- Engagement letters: add client + firm security duties





# Sample clauses

## 1. Cybersecurity / WISP Clause

### **“Written Information Security Plan & Data Safeguards”**

*“Firm has adopted and will maintain a written information security plan (“WISP”) in accordance with IRS Publication 5708 and applicable law. Client agrees to use secure, firm-designated transmission methods, protect access credentials, and immediately notify Firm of any known or suspected breach. In the event that a security incident affects Client data, the Firm will notify Client and, if required by law, the appropriate regulatory authorities. Services will be suspended if Client fails to meet these obligations.”*

# Circular 230: Modernization on Deck

- Proposed updates (late 2024) to multiple sections
- Key areas: return preparer provisions, contingent fees
- Final rule pending — likely effective by 2026

Treasury Department  
Circular No. 230  
(Rev. 6-2014)  
Catalog Number 16586R  
www.irs.gov

Regulations Governing Practice before  
the Internal Revenue Service

Department  
of the  
Treasury

Title 31 Code of Federal Regulations,  
Subtitle A, Part 10,  
published (June 12, 2014)

Internal  
Revenue  
Service

# Sample clauses

## 2. Circular 230 / Tax Practitioner Clause

### **“Standards & Compliance with Circular 230”**

*“The Firm’s tax services will be conducted in compliance with applicable standards of practice under Treasury Department Circular 230, as in effect. To the extent modifications to Circular 230 become final, the Firm reserves the right to update this engagement to maintain compliance. Client agrees to provide timely cooperation and accurate information so the Firm can meet its practitioner obligations.”*



# AICPA Guidance: AI Use & Transparency

- Disclose when and how AI is used in client work
- Require human oversight & protect confidential data
- Update clauses annually as guidance evolves

[Should I disclose my use of gen AI to clients? | AICPA](#)

# Sample clauses

## 3. AI Disclosure & Consent Clause

### **“Use of Generative AI Tools; Client Data & Consent”**

*“The Firm may use generative AI tools (e.g. for drafting analyses, data summarization, or internal workflow) under supervision by licensed professionals. All outputs will be reviewed for quality and accuracy. No confidential Client data will be shared with public or third-party AI systems unless Client gives explicit written consent. If the services involve tax return data, the Firm will consider 26 USC § 7216 and related regulations before any disclosure. The Firm reserves the right to modify AI tools and notify Client of updates; Client consents to performance under these terms.”*

# Operational Best Practices

- Annual renewal vs. evergreen engagements
- E-signatures = enforceable when audit trail is clear
- Standard terms & conditions (master services agreement/MSA) for consistency

# Building Trust and Clarity

It's not just what you say but *how* you say it

# Balance Plain Language/Legalese

- Clarity reduces disputes & misunderstandings
- Clients engage better with plain language
- Avoid vague phrases like “complete” or “all”

## Example:

- ❌ “Monthly bookkeeping”
- ✅ “Monthly reconciliation of 3 bank accounts”





# Annual Renewal vs Evergreen



- Annual renewal: refresh scope & compliance terms
- Protects statute of limitations defense
- Creates yearly checkpoint with clients
- ✗ Evergreen letters may go stale or misaligned

# Client Responsibilities

- ✓ Timely data delivery & secure transmission
- ✓ Provide access to systems and personnel
- ✓ Maintain internal controls
- ✓ Safeguard login credentials

# Client Modification Requests

- Client edits often shift liability to firm
- Watch for changes to: indemnity, liability limits, defense clauses
- Always review edits carefully
- Consult your attorney & insurance carrier before accepting changes

# Trust Takeaway

- Clear, specific language = fewer disputes
- Annual renewals strengthen relationships
- Defined client responsibilities protect the firm
- Careful review of modifications reduces risk
- Engagement letters = relationship tools, not just contracts
- Use counsel & insurer guidance for final wording



# CAS / Scope Protection

Protect the nature and scope of your engagements

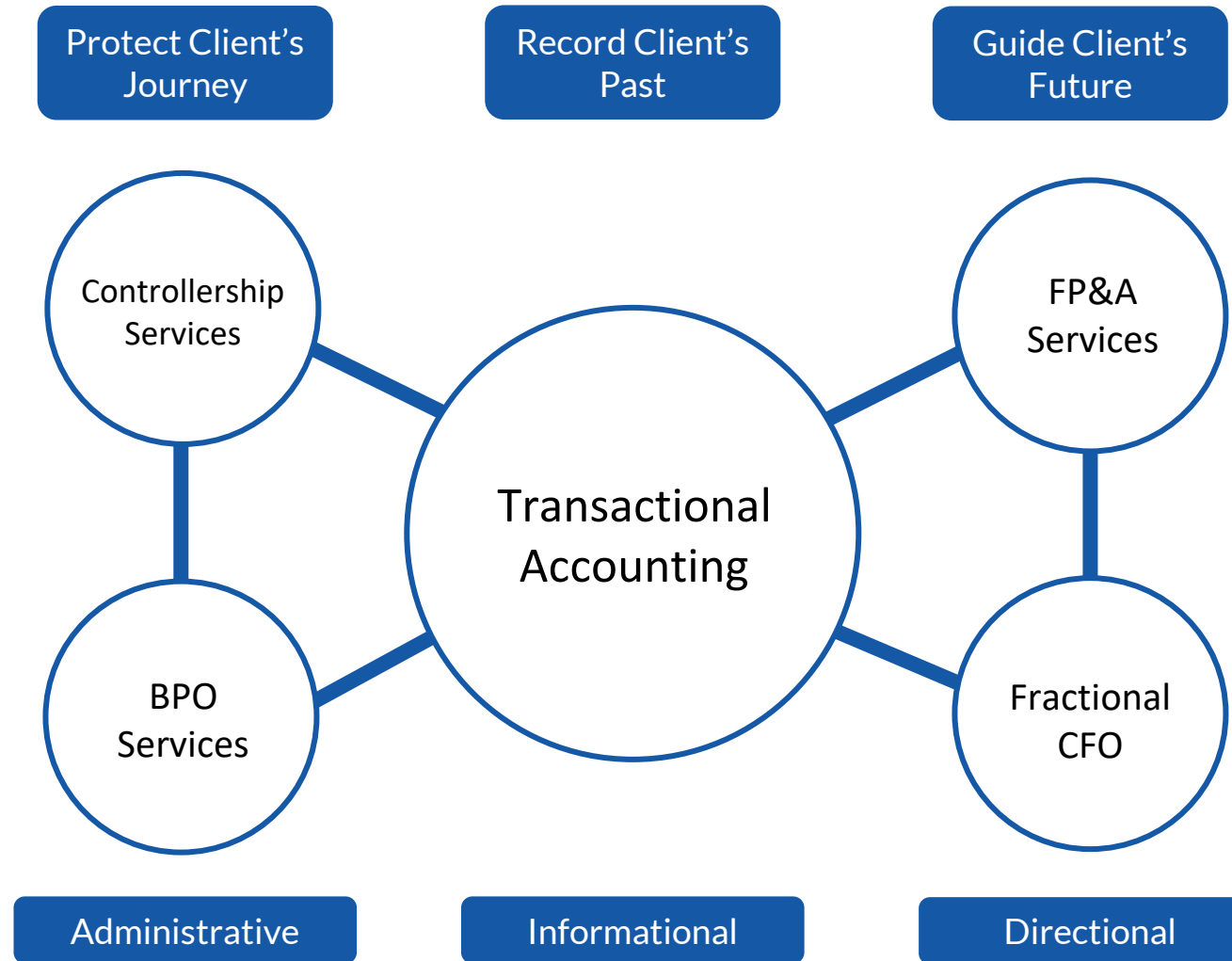


# Components of Client Advisory Services

- 01 Transactional Accounting Services
- 02 Controllershship Services
- 03 Back Office Process Outsourcing
- 04 FP&A Services
- 05 Fractional CFO



# Mapping CAS by Nature



# Nature Creep & Scope Creep Risks

- Nature creep: service type drifts (e.g., bookkeeping → assurance)
- Scope creep: task volume grows (e.g., 5 payrolls → 50 payrolls)
- Both erode profitability and increase risk
- Clearly defining the differences could be opportunity for additional service engagements!

# Mechanisms to Protect Against Creep

- Task lists & schedules = boundaries
- Disclaimers prevent assurance misinterpretation
- Change-order provisions for new work
- Fee adjustment triggers
  - for growth or,
  - non-compliance with firm policies

# Sample Clause – Nature/Scope Creep

“The services covered under this agreement are listed in Exhibit A. Any services requested beyond those listed, or changes in transaction volume or complexity, will require a written change order subject to revised fees and timelines.”



# Sample Clause – Client Non-Compliance

“Client agrees to provide all requested documents and information by **[insert date: MM/DD/YYYY]** or as otherwise specified in the Firm’s requests. If documents are not received by the stated deadline, the Firm may: (a) reschedule completion of services to the next available timeframe; and (b) assess an administrative surcharge of **\$\_\_\_\_ per day** (or a flat fee of **\$\_\_\_\_**) to cover additional time and resources required to complete the engagement. Continued failure to provide information may result in suspension or termination of services.”

# Engagement Letters as Growth & Value Tools

# Annual Renewal → Value Conversation

- Not just compliance — chance to revisit value
- Recap the year: tax savings, avoided penalties, efficiencies gained
- Frame renewal as a business conversation, not a formality



# Quantify Your Impact

- Show hard dollar savings:
  - \$X in tax savings
  - \$X in late fees avoided
  - \$X in improved cash flow / reduced borrowing
- Include efficiency wins: time saved, errors reduced

## Example Talking Point:

*“Last year, our services helped your company save \$18,500 — \$12,000 in tax savings and \$6,500 in avoided late fees.”*



# Upselling Opportunity

- Highlight gaps in current scope
- Suggest upgrades:
  - Transactional → Controllership
  - Controllership → FP&A
  - FP&A → Fractional CFO
- Position new services as the next step in client growth



# Growth Takeaway

- Engagement letters = annual “value report”
- Use renewal to recap results + ROI
- Create opportunities to expand scope
- Strengthen trust while growing revenue

# Future-Ready Engagement Letters

- 2026 brings new requirements: IRS WISP, FTC safeguards, AICPA AI guidance
- Strong engagement letters = compliance + protection
- Clear language builds client trust
- Annual renewals = chance to showcase value & expand services
- Always review with your attorney and insurance carrier



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