

BUSINESS ENGAGEMENT LETTER

Dear Client

Thank you for your instructions to attend to the accounting and taxation requirements for your business and for your family. This letter sets out our terms of engagement. Please read it and make sure that you understand the scope of our engagement.

If the terms of our engagement are acceptable, please sign the enclosed copy of this engagement letter and return same to our office. Please contact this office immediately if you do not understand, or wish to discuss, any aspect of the terms of this engagement.

If you do not forward your signed copy of the engagement letter nor contact us with changes to the engagement, yet continue to provide us with information and instructions regarding your financial affairs, the terms and information provided in this letter will bind us both.

Purpose and scope of the engagement

Our engagement is to attend to the following matters:

- Prepare and lodge the Business Activity Statements for your business, if requested;
- Prepare the annual financial statements for your business entities;
- Prepare and lodge the annual income tax returns for your business and yourself;
- Prepare and lodge the annual fringe benefits tax returns for your business entities, if requested;
- Prepare and lodge the superannuation returns for your superannuation fund, if requested.

The attached schedule lists those business entities and family members included in this engagement letter.

Subject to any agreement to the contrary, the work is limited to the above and does not include specific advice, auditing or any other work.

Knowledge and skills

While the work, as defined, is within our knowledge and skills, any changes to the work may necessitate making new arrangements with you.

Professional fees and payments:

Please refer to our website www.richards.net.au where these are detailed under new client frequently asked questions (F.A.Q.) Unless otherwise stated in writing, any estimates which we provide to you of our anticipated fees, disbursements and charges for any work are only indicative of the amounts you can expect to be charged. Estimates are not quotes and are not binding on us.

Terms of Trade

Unless other terms have been agreed to, our terms of payment are strictly seven (7) days from the date of each invoice. We will provide you with an itemised account of professional fees, costs and disbursements upon request. Accounts over 30 days old incur a \$10 administration fee. If we incur any costs of collection, such as solicitors fees and collection agency fees etc, you agree to indemnify us for all such costs.

1. Accounting & record keeping

In undertaking this engagement, it is understood that you will generally ensure that:

- The bookkeeping for all business entities is maintained on a regular basis;
- Reconciliations for bank accounts, debtors and creditors are performed at the end of each month for each of the business entities;
- A stocktake will be performed during the last weekend in June for each entity that deals in trading stock; and
- It is expected that the trial balance of each of the business entities will be completed no later than 31st October.

In respect of the personal tax returns for you and your family, it is expected that all relevant information will be collated and forwarded to our office by 31st January. We shall detail more specific requirements in respect of the individual tax returns later in this letter.

2. No statutory financial audits are conducted

You and your employees are responsible for the maintenance of the accounting systems and internal controls for all the business entities. That includes the keeping and maintenance of all required books of account. Our firm is not being engaged to conduct a statutory audit of the financial records of any of your business entities and we will not express an auditor's opinion as to the truth and fairness of the financial statements.

3. Documentation

Before we lodge any returns on your behalf, we will forward the documents to you for your approval. We will endeavour to ensure that the returns are lodged by the due dates. If you are late in providing information, we will do our best to meet the time limits, but we will not be responsible for any lodgement penalties or interest you may incur.

4. Ownership of documents

The financial statements, tax returns and any other documents which we are specifically engaged to prepare, together with any original documents given to us by you, shall be your property. Any other documents brought into existence by us, including general working papers, the general ledger and draft documents, will remain our property at all times.

If our services are terminated (by either party) we shall be entitled to retain all documents owned by you until payment in full of all outstanding fees. Where copies of any documents released to you are required for our records, you will be charged for the cost of photocopying at our normal rates.

5. Additional services

Our agreed fee is only for the preparation and lodgement of the accounting and taxation matters detailed above. Any agreed fee applies only to services and advice provided within the scope of our engagement. This fee includes the checking and forwarding of original assessments and original payment notices that are received from the Australian Taxation Office and the Australian Securities & Investment Commission (ASIC).

However, any additional services or advice that you request are outside the scope of our engagement and not included in this agreed fee. These services will be charged on the basis of the time and degree of skill and acumen required to complete the task undertaken by us, including any direct out-of-pocket expenses. Please note, any correspondence from the Australian Taxation Office or ASIC that does not relate to initial assessments or original payment notices will be treated as additional services.

6. Limitations to advice

Please be aware that:

- Any advice given is an opinion only and is based on our knowledge of the particular circumstances; and
- That there are limitations attaching to tax advice and service so that you should not interpret an expression of opinion by us as an assertion of fact.

We shall now outline the basis of our engagement in the context of the specific services to be provided

It should be noted at the outset that as a general proposition we rely on our clients to provide us with accurate and timely information to enable us to properly perform our engagement obligations. Consequently, any rectifying work performed by us on the basis of incorrect or late information will be work which is outside the scope of our engagement and will be charged as additional services.

Business Activity Statements

As the business activity statements are prepared quarterly and lodged during the financial year, it is not possible for this firm to review the correctness of the underlying financial information as part of the preparation of the quarterly Business Activity Statements. This is because we are engaged to prepare the annual accounts and these are prepared at the conclusion of the financial year.

Therefore, for the quarterly Business Activity Statements, we will rely on and process the financial information provided to us without any review of the primary source documents. In doing that, we will make the following specific assumptions:

- The financial information provided to us is accurate;
- The financial information correctly states the GST position. For example, all input tax credits and GST payable amounts have been correctly recorded in the general ledger;
- You have the necessary supporting documentation to satisfy the Australian Taxation Office for GST purposes; and
- You hold valid tax invoices and adjustment notes for all expenditure incurred by you in respect of which an input tax credit is being claimed.
- If you are unsure of the correct GST position or documentary evidence required we are able to provide this as work which is outside the scope of our engagement and charged as additional services.

However, it is possible that, when the financial accounts are prepared, some discrepancies will exist between the information disclosed in the quarterly Business Activity Statements and the annual financial statements. Should any discrepancies arise, we will discuss the need to correct either the Business Activity Statements and/or financial accounts and the fee for those services.

Financial Accounts

This firm has been engaged to prepare the annual financial accounts of your business. This service includes preparation of:

- A profit and loss statement
- A balance sheet; and
- Notes for the above accounts.

This service includes maintenance of the charts of accounts for the general ledgers of your business entities. It also includes telephone support should you require any assistance as to how to record specific transactions in the general ledger. The fee of this service also includes the preparation and lodgement of standard reports to be furnished to ASIC. This service does not include the preparation of one-off accounts for presentation to your financiers for additional finance and the like.

Income Tax Returns

This firm has been engaged to prepare and lodge income tax returns for your business and yourself.

In addition to the basic financial information required to complete these tax returns, it is expected that the source documentation will be available to allow this firm to analyse the income tax implications of any transaction.

It is also expected that, in respect of individual income tax returns, each person will comply with the substantiation provisions of the Income Tax Assessment Act.

We will specifically advise as to the requirements of the substantiation provisions relating to your income tax return and of the necessity to obtain acceptable receipts as specifically required by the legislation. We will not, however, be checking that the requirements of the substantiation provisions have been satisfied. This specifically means that we will not be reviewing your log book or any calculations or information you provide us, for example a rental property schedule either prepared by you on spreadsheet or by a property manager. If you require assistance in completing a log book or preparing any calculations or you would like us to review such work, please discuss this with us. This will entail work which is outside the scope of our engagement and will be charged as additional services.

From time to time, this firm prepares templates and schedules to assist with the collation of information to complete income tax returns.

These will be provided free of charge.

The fee for this service does not cover any inquiries or investigations conducted by the Australian Taxation Office. Substantial penalties may apply for an incorrectly prepared tax return. If you have any queries in relation to this please contact our office for assistance.

Fringe Benefits Tax Returns

If this firm has also been engaged to prepare and lodge the Fringe Benefits Tax Returns for your business, then please note, with the introduction of GST, it is no longer possible to prepare an Fringe Benefits Tax Return from the information contained in the general ledger.

It is necessary to revert to the source documentation to allow this firm to analyse the Fringe Benefits Tax implications of any transaction.

Our fee for this service includes the following:

- Advice on how to collate the information necessary to prepare the annual Fringe Benefits Tax Return;
- Telephone advice on basic Fringe Benefits Tax issues;
- An annual review of the means to reduce the Fringe Benefits Tax expense on the annual Fringe Benefits Tax Return; and
- The calculation of Reportable Fringe Benefits Tax Amounts that are to be included on the annual payment summaries for your employees (including family members employed in your business).

Superannuation

If this firm has also been engaged to attend to the compliance work for your superannuation fund, this assignment will involve:

- Preparation of the annual financial accounts for the purposes of the Superannuation Industry Supervision Act (the SIS act)
- Preparation and lodgement of the SMSF annual return. It is important to note as part of the regulatory framework for SMSFs an annual audit of the fund must be undertaken and provided to the trustees before the annual SMSF return is lodged. Therefore trustees of the fund must ensure that they provide the fund accounting records no later than 30 September each year to allow these tasks to be completed.
- With respect to the annual audit of the SMSF referred to above, this office will make arrangements for the audit to be undertaken by an external party and the cost of such third party will be included in our fee for services rendered each year
- Annual review of superannuation funding requirements.

In addition to the basic financial information required to complete these requirements, it is expected that the source documentation will be available to allow this firm to analyse the implications of any superannuation related transaction.

You should also note that the deeds of the fund should be annually reviewed by a superannuation specialist to ensure they continue to comply with the requirements of the SIS Act. Our engagement does not extend to the provision of legal advice and our fee does not include this service, although we are happy to recommend the services of a superannuation specialist for this task.

Our fee does not include financial planning services for the investments of the superannuation fund or any planning advice for your future retirement planning needs.

This service does not cover any inquiries or investigations conducted by the Australian Taxation Office.

Disclosure

You [the client] must provide all information and documents relevant to the proper performance of the work at the outset of the engagement and during the engagement. This includes promptly advising us of anything that occurs subsequently to render information already provided misleading or incomplete, or advising of any change in your circumstances relevant to the work.

If during the engagement you become aware of any conflict of interest or potential conflict of interest or there is a change of circumstances which may result in a conflict, you must advise us.

Events which may give rise to a conflict of interest or potential conflicts during the engagement include events affecting you, such as deaths, matrimonial disputes as well as litigation (threatened or actual) or changes in the nature or structure of your business or your business relationships.

There are provisions in the Taxation Administration Act 1953 that provide you (as from 1 March 2010) with "safe harbours" from administrative penalties for incorrect or late lodgement of returns if, among other things, you give us "all relevant taxation information" in a timely manner.

This means that it is to your advantage to give us all information necessary for us to do the work.

Confidentiality

Subject to the law, we must not disclose any information relating to your affairs to a third party without your consent. We may from time to time use contractors to assist with the preparation of your work. By signing this engagement letter you agree to us disclosing your confidential information to the extent required.

Your Rights and Obligations Under Tax Law

The taxation laws confer on you certain rights (such as to challenge a decision of, or an assessment issued by, the Australian Taxation Office) but also impose obligations on you (such as the keeping and retaining of adequate and accurate records and the filing of relevant returns with the Australian Taxation Office within the required time limits). Please refer to our website www.richards.net.au for more information

Duty to Comply with the Law

We will act in your best interests but like all citizens, we must comply with the law, even where that may be contrary to your interests. For example, we must comply with certain statutory notices from the ATO, which may require payment to it of money we are holding on your behalf, or the production of documents or information.

Professional Competence

You must provide all information and documentation which we should take into account in applying the taxation laws. Any failure by you to provide all such information and documentation, both voluntarily and in answer to our questions, may affect your ability to access the safe harbour provisions and will be taken into account when assessing our obligations under the Code.

Our obligations under this principle are also limited to the extent of any disclosure by us in this letter of specific specialities, skills, or lack thereof, or other limitations.

Trust Account

We will separately account to you for all money and other property received from you or for you other than money received from you in payment of our fees for services already rendered.

Quality Review

As members of the Institute of Public Accountants (IPA) we are subject to periodic quality assurance reviews (as well as annual audit of our trust account). Unless otherwise advised by yourself, by engaging our firm, you are consenting to your files possibly being part of such a quality review.

Previous Accountant

As a matter of professional courtesy, and in line with the requirements of the IPA, we will need to inform your previous accountant that we have been engaged by you as your new accountant and to receive from them any outstanding matters and files. You may refuse to provide this information but in doing it may cause problems in the efficient transfer of your files.

Standards

We aim to provide the highest standard of professional service and are focused on the concerns of my/our clients. If for any reason you feel you have not received the level of service expected or have an issue to raise, please contact myself to discuss how the problem may be resolved.

Furthermore, as members of the IPA in public practice, we are subject to the ethical requirements of the IPA and its Investigations and Disciplinary processes. These requirements cover issues such as a Code of Conduct and Ethics, adherence to Accounting and Auditing Standards, requirements to undertake Continued Professional Education and to hold trust money in a Trust Account. Should there be an issue regarding the ethical or business practices of this firm, such matters may be referred to the IPA Investigator. However, as the accounting profession does not have regulated fees, the IPA will not investigate purely fee-based disputes but may recommend the parties seek mediation to resolve such disputes.

Confirmation of engagement

Obviously, there are many issues to consider in this engagement and we ask that you consider all aspects of this letter to ensure that you are satisfied with the scope of our engagement.

Please contact us if you have any queries about this letter.

As mentioned above, if you do not forward your signed copy of the engagement letter, nor contact us with changes to the engagement, yet continue to provide us with information and instructions regarding your financial affairs, the terms and information provided in this letter will bind us both.

Once you are satisfied with the terms of our engagement, would you please sign and date both copies of this letter.

One copy should be forwarded to us as evidence of your acceptance of the terms of our engagement. You should retain the other copy as your evidence of our engagement.

We thank you for the opportunity to provide accounting and taxation services to you and your business and we look forward to developing a close accounting relationship with you for many years to come.

Yours sincerely



John Richards

Acknowledgement of terms of engagement

I confirm that I understand and agree to your terms of engagement.

Dated the _____ day of _____ 20_____

(signature)

(insert name)

(signature)

(insert name)

(signature)

(insert name)

(signature)

(insert name)

(signature)

(insert name)

Schedule of business entities and family members

V. 2011.B.3

