

Ref: [Signatory initials]: [Creator initials]

10 April 2008

[insert name]
[address line 1]
[address line 2]

Dear [insert name],

Thank you for your instructions to attend to the accounting and taxation requirements for your business entities and for your family. This letter sets out our terms of engagement and the scope of the work to be performed by us within that engagement. Please read it carefully and if you have any queries or wish to discuss any aspect do not hesitate to contact us.

If the terms of our engagement are acceptable, please sign the enclosed copy of this engagement letter and return it to our office.

Purpose and scope of engagement

Our engagement is to attend to the following matters:

- prepare and lodge the BAS returns for your business entities;
- prepare the annual financial statements for your business entities;
- prepare and lodge the annual income tax returns for your business entities and your family;
- prepare and lodge the annual FBT returns for your business entities;

As agreed, our services will be provided to you on a fee for service basis .

Fees are billed as Work in Progress exceeds \$500.00 or as agreed, or as arranged with the firm. Late payment of fees incur our administration fee of \$25.00 plus interest at a rate of 18.00% pa.

This letter relates only to the abovementioned services and details the basis and terms of this engagement. Work that is performed or disbursements that are incurred which are outside the scope of our engagement will be the subject of additional charge.

Basis of engagement

As previously discussed, our engagement is to assist with the preparation of the financial accounts and the preparation and lodgment of the taxation requirements of your business entities and of your family.

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. In fact, we recommend the bookkeeping and record-keeping tasks be attended to each week.
- Reconciliations for the 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.
- It is expected that the trial balance of each of the business entities will be completed no later than 15 August each year.

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 30 November each year. 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 approval. We will endeavour to ensure that the returns are lodged by the due dates and will advise you at the beginning of the financial year when documentation should be provided to us. 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 late lodgment penalties 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, 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 lodgment of the accounting and taxation matters detailed above. Naturally, this fee includes the checking and forwarding of original assessments and original payment notices that are received from the Australian Taxation Office.

However, any additional services or advice that you request are 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 that any correspondence from the Australian Taxation Office that does not relate to initial assessments nor original payment notices, will be treated as additional services.

6. CPA Quality Review Program

We are subject to the Quality Review Program of CPA Australia.

Your file may be made available to the reviewer for the purposes of the Quality Review.

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 upon 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 additional to the scope of our engagement.

BAS returns

As the BAS returns 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 BAS return.

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 BAS returns, 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. If you are unsure of the correct position or require advice regarding this, we are able to provide this as work additional to the scope of our engagement.
- You have the necessary supporting documentation to satisfy the Australian Taxation Office for GST purposes. Again, if you are unsure of the ATO requirements or require advice regarding these documents, we are able to provide this as work additional to the scope of our engagement.
- 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.

However, it is possible that, when the financial accounts are prepared, some discrepancies will exist between the information disclosed in the quarterly BAS returns and in the annual financial statements.

Should any discrepancies arise, we will discuss the need to correct either the BAS returns and/or financial accounts. Those services will involve work which is additional to the scope of our engagement.

Financial accounts

This firm has been engaged to prepare the annual financial accounts of the business entities in your group. This service includes the 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 for this service also includes the 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 the business entities in your group and for your family.

This firm will not be responsible for reviewing or verifying any financial statements provided to it either via manual cashbooks or prepared on accounting software such as MYOB or Quickbooks. Correct coding or classification of accounts is outside the scope of this engagement. If assistance is required in how to correctly code or to review how you currently do so please discuss this with us. This will entail work which is additional to the scope of our engagement and incur an additional charge.

Also please ensure that you have all source documentation available to allow this firm to analyse the income tax implications of any transaction, if we request to see it. Whilst we will not as a matter of course be looking at these documents, the ATO will expect you (and you are required) to have them available before any claim is made in your income tax return. We may in some circumstances also request to see source documents if a tax issue is particularly contentious.

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 additional to the scope of our engagement and will incur an additional charge.

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.

Fringe benefits tax returns [Delete if not applicable]

This firm has also been engaged to prepare and lodge the FBT returns for your business entities.

Please note, with the introduction of GST, it is no longer possible to prepare an FBT 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 FBT implications of any transaction.

Our fee for this service includes advice on how to collate the information necessary to prepare the annual FBT return.

This fee also includes telephone advice on basic FBT issues.

Our fee also includes an annual review of the means to reduce the FBT expense on the annual FBT return.

This fee also includes 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).

