

29 June 2012

Dear Client,

Thank you for your instructions to attend to the accounting and taxation requirements for your business entities and for your family. A list of the entities and individuals for whom we are to act is set out in the accompanying Schedule and our comments below are directed to all those persons. 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.

With effect from 1 March 2010, a new regime for the regulation of tax agents has taken effect under the *Tax Agent Services Act 2009* and accompanying legislation (**TASA**). The new regime has implications for registered tax agents and also for their clients.

An important feature of TASA is the provision of a “safe harbour” protection from penalties in certain circumstances for taxpayers who engage registered tax agents.

To obtain the benefits of “safe harbour” protection, the legislation requires the taxpayer to provide the registered tax agent with “all relevant taxation information” to enable accurate statements to be provided to the Australian Taxation Office (ATO). This requirement may be important to both parties in identifying and understanding the purpose and scope of the engagement as set out below and may also affect other matters discussed below.

If the terms of our engagement are acceptable, we ask that all persons sign the enclosed copy of this engagement letter in the places indicated and return it to our office.

Purpose and scope of engagement

Our engagement is to attend to the following matters (where applicable):

- 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; and
- prepare and lodge the superannuation returns for your superannuation fund.

Each business entity and adult family member listed is bound by those terms. and are all jointly and severally liable to pay our accounts, regardless of which of the listed individuals or entities those accounts are addressed to and regardless of which of the individuals or entities received the benefit of the work performed.

Our services will be provided to you on a fee for service basis based on hourly rates and charged as set out below. 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(s).

Basis of engagement

Our engagement is to assist with the preparation of the financial accounts and the preparation and lodgment of the taxation returns of your business entities and of your family.

In conducting this engagement, information acquired by us in the course of the engagement is subject to strict confidentiality requirements. That information will not be disclosed by us to other parties except as required or allowed for by law, or with your express consent.

We wish to draw your attention to our firm's system of quality control which has been established and maintained in accordance with the relevant APESB standard. As a result, our files may be subject to review as part of the quality control review program of CPA Australia which monitors compliance with professional standards by its members. We advise you that by accepting our engagement you acknowledge that, if requested, our files relating to this engagement will be made available under this program. Should this occur, we will advise you.

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.

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 when requested 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. Our engagement cannot be relied upon to disclose irregularities including fraud, other illegal acts and errors that may exist. However, we will inform you of such matters that come to our attention.

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 or interest charges 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.

The firm has a policy of exploring a legal right of lien over any client documents in our possession in the event of a dispute.

5. Additional services

The scope of our engagement is the preparation and lodgment 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 of original assessments and original payment notices that are received from the ATO and the Australian Securities & Investments 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 in particular that any correspondence from the ATO or ASIC that does not relate to initial assessments nor original payment notices, will be charged as additional services.

6. Fees and charges

Unless otherwise expressly agreed with you in writing, our professional fees are charged at hourly rates, using six minute increments. Those rates:

(a) are as follows:

Member	Hourly rate (inc GST)
Ray Tonglee	\$302.50
Kevin Tonglee	\$220.00

The above rates may vary from time to time.

Subject to any agency arrangements for GST discussed below under the heading “**GST-Disbursements**”, disbursements properly incurred from external suppliers (couriers, ASIC fees, other Government fees etc) will be charged to you at cost plus GST.

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 or caps and are not binding on us.

Where an estimate is given and the scope of the work changes, or if it becomes apparent that the work involves matters which were not taken into account in the estimate, we will endeavour to advise you and provide an amended estimate as soon as it is practicable to do so.

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 outside the scope of our engagement and will be charged as additional services.

7. Limitation of Liability

Our liability is limited by a scheme approved under Professional Standards Legislation. Further Information on the scheme is available from the Professional Standards Councils' website:

<http://www.professionalstandardscouncil.gov.au>.

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 after 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 which is outside the scope of our engagement and charged as additional services.
- You have the necessary supporting documentation to satisfy the ATO 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 which is outside the scope of our engagement and charged as additional services.
- 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. Substantial penalties apply for an incorrectly prepared BAS. If you have any queries in respect to this, please contact our office for assistance.

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 outside the scope of our engagement and will be charged as additional services.

Financial accounts

This firm has been engaged to prepare the annual financial accounts of the business entities in your group in accordance with the relevant professional and ethical standards issued by the Accounting Professional & Ethical Standards Board Limited (APESB).

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 chart 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 preparation and lodgement of 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 records or 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 outside the scope of this engagement and will be charged as additional services.

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 have the necessary documents so as to 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.

The fee for this service does not cover any inquiries made to us or investigations involving us conducted by the ATO. Substantial penalties apply for an incorrectly prepared income tax return. If you have any queries in respect to this, please contact our office for assistance.

Fringe benefits tax returns

If 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 our 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 methods available to reduce the FBT expense on the annual FBT return.

This fee also includes the calculation of Reportable Fringe Benefits Tax Amounts that may be required to be included on the annual payment summaries for your employees (including family members employed in your business).

GST – professional fees

Our professional fees are inclusive of Goods and Services Tax (“GST”). If the services we are providing are to your business then you may be able to claim a GST input tax credit for the GST you pay us. However, this will not be the case if the services we provide are used by you in creating an input taxed supply. In this situation you cannot claim the GST associated with our professional fees as an input tax credit.

If your matter involves a mixture of taxable, GST free and input taxed supplies we will not apportion our professional fees between these categories of supply unless you have expressly requested us to do so.

Please note that if you make such a request after the commencement of any particular matter it may not be possible for us to subsequently apportion professional fees that were incurred prior to receiving your request. If you need separate advice on whether you will receive the benefit of a GST input tax credit for the GST paid to us, then please contact us.

GST – Disbursements

In addition to our professional fees, you will be responsible for payment of expenses which we incur on your behalf (together with the GST that we pay in relation to such expenses as set out below).

Certain government charges and fees included in some matters undertaken in the scope of our engagement are effectively “GST free” to the applicant, but will attract the 10% GST if paid by this firm and then passed on to you as part of our services. Accordingly for certain disbursements in this category, namely:

- ASIC fees;
- New company and trust deed orders; and
- Other specific disbursements notified from time to time,

We will act as your agents in incurring those disbursements. You will therefore technically be primarily liable to pay the account to the supplier. Under this agency relationship, you will receive the benefit of any concessional GST treatment of any part of the disbursement.

Where GST is payable on some or all of a supply acquired by us as your agent, we will forward you the Tax Invoice and you will be entitled to claim the input tax credits directly if you have an ABN and are entitled to claim input tax credits.

For disbursements incurred in this manner we may in some cases require that you provide us with separate cheques for the relevant amounts to be paid directly to the relevant government body or supplier.

For all other disbursements (couriers, searches, photocopying etc) the treatment will be the same as for professional fees - this firm will incur the costs at first instance and invoice them on to you after making allowance for any GST input tax credits received by us on the acquisition. These invoices will include GST for which you may be entitled to claim an input tax credit.

Superannuation

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

- Preparation of the superannuation fund's 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 of the fund before the SMSF annual return is lodged. Therefore, trustees of the fund must ensure that they provide the fund accounting records when requested to allow these tasks to be completed.
- With respect to the annual audit of the SMSF referred to above:
 - (a) this office will make arrangements for the audit to be undertaken by an external party whereby the audit fee will be included in our invoice, or
 - (b) you will make your own arrangements entirely at your own expense.

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 such legal advice and our fee does not include this service. 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 for any planning advice for your future retirement planning needs.

This service does not cover any inquiries made by or investigations conducted by the ATO.

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.

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

Yours sincerely,
Tonglee Mellors

Ray Tonglee BA (Acc) CPA