

**GS 008**  
(June 2008)

**Guidance Statement GS 008**  
*Auditor's Report on the  
Remuneration Report  
Pursuant to Section 300A of  
the Corporations Act 2001*

Issued by the **Auditing and Assurance Standards Board**

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## CONTENTS

### AUTHORITY STATEMENT

	<i>Paragraphs</i>
Application.....	1
Issuance Date .....	2
Introduction.....	3-4
Background.....	
<i>Prior to the Simplification Legislation</i> .....	5-7
<i>Simplification Legislation</i> .....	8-11
Auditor Reporting Implications .....	
<i>Responsibility to Opine on Remuneration Report</i> .....	12-15
<i>Modifications</i> .....	16-17
The Auditor's Report .....	18
Conformity with International Pronouncements .....	19
Appendix 1 Illustrative Example of the Auditor's Report Addressing the Auditor's Additional Reporting Responsibilities pursuant to section 308(3C) of the <i>Corporations Act 2001</i>	

**Guidance Statement GS 008 Auditor's Report on the Remuneration Report Pursuant to Section 300A of the Corporations Act 2001**

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**AUTHORITY STATEMENT**

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 008 *Auditor's Report on the Remuneration Report Pursuant to Section 300A of the Corporations Act 2001* as set out in paragraphs 1 to 19 and Appendix 1, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on procedural auditing and assurance matters.

This Guidance Statement provides guidance to assist the auditor to fulfil the objective of the audit or assurance engagement. It includes explanatory details and suggested procedures on specific matters for the purposes of understanding and complying with *AUASB Standards*. The auditor exercises professional judgement when using this Guidance Statement.

The Guidance Statement does not prescribe or create new mandatory requirements.

Dated <<>> June 2008

M H Kelsall  
Chairman - AUASB

## GUIDANCE STATEMENT GS 008

### *Auditor's Report on the Remuneration Report Pursuant to Section 300A of the Corporations Act 2001*

#### **Application**

- 1 This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to auditors reporting pursuant to section 308(3C) of the *Corporations Act 2001* ("the Act") on the remuneration report required to be included in the annual directors' report pursuant to section 300A of the Act ("the remuneration report").

#### **Issuance Date**

- 2 This Guidance Statement is issued on <<>> June 2008 by the AUASB and replaces the guidance contained in Auditing Guidance Note *Auditor's Report on AASB 124 Remuneration Disclosures contained in the Annual Directors' Report*, issued in August 2006.

#### **Introduction**

- 3 The auditor's objective in respect of the remuneration report is to express an opinion on whether the remuneration report complies, in all material respects, with section 300A of the Act.
- 4 This Guidance Statement is to be read in conjunction with Standard on Assurance Engagements ASAE 3100 *Compliance Engagements*.

#### **Background**

##### *Prior to the Simplification Legislation*

- 5 Prior to June 2007, listed companies were required under the Act to include certain remuneration disclosures specified in Accounting Standard AASB 124 *Related Party Disclosures*, in both:
- (a) the annual financial report (required by section 296 of the Act, which requires the financial report to comply with Australian Accounting Standards); and

**Guidance Statement GS 008 Auditor's Report on the Remuneration Report Pursuant to Section 300A of the Corporations Act 2001**

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- (b) the annual directors' report (required by section 300A of the Act).
- 6 Corporations Regulation 2M.6.04 and Schedule 5B of the *Corporations Regulations 2001* ('Regulations') provided relief to listed companies from making the same remuneration disclosures twice, by allowing these companies to choose to make certain AASB 124 remuneration disclosures in the directors' report only (under the heading "Remuneration report").
- 7 Among other requirements, for this relief to have been available, the company's auditor was required to form an opinion on whether the AASB 124 disclosures included in the directors' report complied with AASB 124, and to include this opinion in the auditor's report on the financial report.

*Simplification Legislation*

- 8 The Federal Government's *Corporations Legislation Amendment (Simpler Regulatory System) Act 2007* (Cth) received Royal Assent on 28 June 2007, bringing into effect a number of provisions which amend the Act, including:
- Amendments to the requirements of section 300A in relation to the remuneration report, including extending the application of section 300A to any disclosing entity that is a company.
  - A new subsection 308(3C) which requires the auditor to express an opinion to members on whether the remuneration report complies with section 300A of the Act.

These amendments apply to financial years beginning on or after 28 June 2007.

- 9 Furthermore, *Corporations Amendment Regulations 2007 (No 2)* (Cth), applicable to financial years beginning on or after 30 June 2007, has amended the Regulations as follows:
- (a) included the remuneration disclosure requirements of AASB 124 into Regulation 2M.3.03 of the Regulations; and
- (b) repealed the existing Regulation 2M.6.04 and the associated Schedule 5B to the Regulations (applicable to annual financial reports of listed companies).
- 10 As a result of the above amendments to the Act and Regulations, a company that is a disclosing entity is required to:

**Guidance Statement GS 008 Auditor's Report on the Remuneration Report Pursuant to Section 300A of the Corporations Act 2001**

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- (a) report remuneration information in the remuneration report in accordance with section 300A of the Act and Regulation 2M.3.03; and
  - (b) report the same remuneration information in its financial statements in accordance with AASB 124<sup>1</sup>.
- 11 In order to avoid this duplication, the Australian Accounting Standards Board, on <<>> June 2008, issued Accounting Standard AASB 2008-X Amendments to Australian Accounting Standard - Key Management Personnel Disclosures by Disclosing Entities. These amendments provide relief to disclosing entities that are companies from complying with the paragraphs in AASB 124<sup>2</sup> that have been included in section 300A of the Act and Regulation 2M.3.03, applicable for annual reporting periods ending on or after 30 June 2008.

## **Auditor Reporting Implications**

### *Responsibility to Opine on Remuneration Report*

- 12 Section 308(3C) of the Act requires that, if the directors' report for the financial year includes a remuneration report, the auditor must *also* report to members on whether the auditor is of the opinion that the remuneration report complies with section 300A of the Act. If not of that opinion, the auditor's report must state why.
- 13 The requirement to express a distinct opinion on the remuneration report in the directors' report is additional to the auditor's responsibility to express an opinion on the financial report. In accordance with Compiled Auditing Standard ASA 700 *The Auditor's Report on a General Purpose Financial Report*, the auditor is required to address other reporting responsibilities in a separate section of the auditor's report that follows the opinion paragraph on the financial report, in order to clearly distinguish them from the auditor's primary responsibility to opine on the financial report.<sup>3</sup>
- 14 Where a company has included a remuneration report in the annual directors' report pursuant to section 300A of the Act, the auditor's report should clearly identify the paragraph(s), section(s) or pages of the directors' report that have been audited pursuant to section 308(3C) of the Act. This is necessary to avoid any

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<sup>1</sup> AASB 124 paragraphs Aus25.2 to Aus25.6; Aus 25.7.1 and Aus25.7.2.

<sup>2</sup> See footnote 1.

<sup>3</sup> See ASA 700, paragraph 51.

**Guidance Statement GS 008 Auditor's Report on the Remuneration Report Pursuant to Section 300A of the Corporations Act 2001**

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misunderstanding by users as to which part of the directors' report has been subjected to audit.

- 15 Furthermore, the auditor's report should identify the respective responsibilities of the directors and the auditor in relation to the remuneration report.

*Modifications*

- 16 Under AASB 124, the remuneration disclosures required by paragraphs Aus25.1 to Aus25.9.3 of AASB are deemed to be material. Section 300A and Regulation 2M.3.03 of the Act requires similar information to be included in the directors' report. Accordingly, the omission of any disclosures or material misstatement of disclosures would require the auditor's report on the remuneration report to be modified. The auditor considers any misstatement of the remuneration report by application of the materiality requirements of the Australian Auditing Standards.
- 17 Modifications to the auditor's report are to be made in accordance with the principles of ASA 701 *Modifications to the Auditor's Report*.

**The Auditor's Report**

- 18 Appendix 1 of this Guidance Statement provides illustrative examples of auditor's reports that may be used by the auditor reporting on the remuneration report pursuant to section 308(3C) of the Act.

These example auditor's reports are based on the illustrative example auditor's report included as Example 1 in Appendix 2 of ASA 700, which is operative for financial reporting periods commencing on or after 1 July 2006. These example reports incorporate subsequent amendments made by the AUASB up to and including 27 June 2007.<sup>4</sup>

**Conformity with International Pronouncements**

- 19 As this Guidance Statement relates to Australian legislative requirements, there is no equivalent International Standard on Auditing or International Auditing Practice Statement to this Guidance Statement.

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<sup>4</sup> For operative dates of paragraphs changed or added, see ASA 700 *Compilation Details*.

**APPENDIX 1**

**ILLUSTRATIVE EXAMPLE OF THE AUDITOR'S REPORT ADDRESSING THE AUDITOR'S ADDITIONAL REPORTING RESPONSIBILITIES PURSUANT TO SECTION 308(3C) OF THE CORPORATIONS ACT 2001**

The example auditor's reports included in Appendix 2 of ASA 700 *The Auditor's Report on a General Purpose Financial Report* complies with the statutory audit reporting requirements of the *Corporations Act 2001*.

Example report 1 from Appendix 2 of ASA 700 is used as the base report to which is added illustrations regarding the remuneration report.

The highlighted paragraphs suggest example wording that may be used by the auditor reporting pursuant to section 308(3C) of the *Corporations Act 2001* on the remuneration report included in the directors report pursuant to section 300A of the Act.

Note: This example auditor's report includes:

- (i) an unmodified auditor's opinion on the financial report; and
- (ii) two illustrative auditor's opinion paragraphs in relation to the auditor's *Report on the Remuneration Report included in the Directors' Report*, to provide example wording in circumstances where:

- (A) an unmodified opinion; and

- (B) a modified opinion

may be required.

In example paragraph (B), the opinion paragraph has been qualified on the basis of inadequate disclosure of information required by section 300A of the *Corporations Act 2001* (disagreement on remuneration disclosures in the remuneration report).

**Guidance Statement GS 008 Auditor's Report on the Remuneration Report Pursuant to Section 300A of the Corporations Act 2001**

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INDEPENDENT AUDITOR'S REPORT

To the members of [name of entity]

**Report on the Financial Report<sup>5</sup>**

We have audited the accompanying financial report of [name of entity], which comprises the balance sheet as at 30 June 20XX, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.<sup>6</sup>

*Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. [In Note XX, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.<sup>7</sup>]

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of

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<sup>5</sup> The subheading "Report on the Financial Report" is unnecessary in circumstances when the second subheading "Report on Other Legal and Regulatory Requirements" is not applicable.

<sup>6</sup> When the auditor is aware that the financial report will be included in a document that contains other information, the auditor may consider, if the form of presentation allows, identifying the page numbers on which the audited financial report is presented.

<sup>7</sup> Insert only where the entity has included in the notes to the financial statements, an explicit and unreserved statement of compliance with International Financial Reporting Standards in accordance with AASB 101

**Guidance Statement GS 008 Auditor's Report on the Remuneration Report Pursuant to Section 300A of the Corporations Act 2001**

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material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control.<sup>8</sup> An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

*Auditor's Opinion*

In our opinion the financial report of [name of entity] is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the [company that is a disclosing entity]'s financial position as at 30 June 20XX and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.

OR

[In our opinion:

- (a) the financial report of [name of entity] is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the [company that is a disclosing entity]'s financial position as at 30 June 20XX and of its performance for the year ended on that date; and

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<sup>8</sup> In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the financial report, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances."

**Guidance Statement GS 008 Auditor's Report on the Remuneration Report Pursuant to Section 300A of the Corporations Act 2001**

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- (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note XX.<sup>9]</sup>

**Report on Other Legal and Regulatory Requirements<sup>10</sup>**

**Report on the Remuneration Report Included in the Directors' Report**

We have audited the remuneration report, required by section 300A of the *Corporations Act 2001*, included in pages (or paragraphs) x to y of the directors' report for the [period] ended 30 June 20XX.

***Directors' Responsibility for the Remuneration Report included in the Directors' Report***

The directors of the company are responsible for ensuring that the remuneration report complies with section 300A of the *Corporations Act 2001*.

***Auditor's Responsibility***

Our responsibility is to express an opinion, based on our audit, on whether the remuneration report complies, in all material respects, with section 300A of the *Corporations Act 2001*. We have conducted an independent audit, in accordance with ASAE 3100 *Compliance Engagements*, of the remuneration report.

An audit involves performing procedures to obtain audit evidence about the remuneration disclosures included in the directors' report under the heading "Remuneration Report". The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the remuneration report, whether due to fraud or error.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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<sup>9</sup> Insert only where the entity has included in the notes to the financial statements, an explicit and unreserved statement of compliance with International Financial Reporting Standards in accordance with AASB 101 AND the auditor agrees with the entity's statement. If the auditor does not agree with the statement, the auditor refers to ASA 701.

<sup>10</sup> See footnote 5. The form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.

**Guidance Statement GS 008 Auditor's Report on the Remuneration Report Pursuant to Section 300A of the Corporations Act 2001**

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**(A) FOR AN UNMODIFIED REPORT INCLUDE:**

***Auditor's Opinion on the Remuneration Report Included in the Directors' Report***

In our opinion the remuneration report included in pages (or paragraphs) x to y of the directors' report of [name of entity] complies, in all material respects, with section 300A of the *Corporations Act 2001*.

**OR**

**(B) FOR A MODIFIED REPORT INCLUDE:**

***Basis for Qualified Auditor's Opinion on the Remuneration Report Included in the Directors' Report***

[Include a clear description of all the substantive reasons for the modification]

In our opinion, disclosure of this information is required by section 300A of the *Corporations Act 2001*.

***Qualified Auditor's Opinion on the Remuneration Report Included in the Directors' Report***

In our opinion, except for the omission of the information included in the preceding paragraph, the remuneration report included in pages (or paragraphs) x to y of the directors' report of [name of entity] complies, in all material respects, with section 300A of the *Corporations Act 2001*.

[Auditor's signature]<sup>11</sup>

[Date of the auditor's report]

[Auditor's address]

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<sup>11</sup> ASA 700 requires the auditor's report to be signed in one or more of the name of the audit firm, the name of the audit company or the personal name of the auditor as appropriate.