

GS 008
(March 2010)

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

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

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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) issues Guidance Statement GS 008 *The Auditor's Report on a Remuneration Report Pursuant to Section 300A of the Corporations Act 2001* pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on auditing and assurance matters.

This Guidance Statement provides guidance to assist the auditor to fulfil the objectives of the audit or assurance engagement. It includes explanatory material 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: 22 February 2010

M H Kelsall
Chairman - AUASB

GUIDANCE STATEMENT GS 008

The Auditor's Report on a 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") regarding the Remuneration Report required to be included in the annual directors' report pursuant to section 300A of the Act ("the Remuneration Report").

Section 300A applies to any disclosing entity¹ that is a company.

Issuance Date

- 2 This Guidance Statement is operative on 1 March 2010 and replaces GS 008 *The Auditor's Report on a Remuneration Report Pursuant to Section 300A of the Corporations Act 2001* which was issued in June 2008.

Introduction

- 3 The auditor's objective is to express an opinion on whether the Remuneration Report complies with section 300A of the Act.

Background

Prior to the Simplification Legislation

- 4 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

¹ Disclosing Entity is defined in the *Corporations Act 2001*.

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- (b) the annual directors' report (required by section 300A of the Act).
- 5 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").
- 6 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

- 7 The Corporations Legislation Amendment (Simpler Regulatory System) Act 2007 (Cth) received Royal Assent on 28 June 2007, bringing into effect a number of provisions which amended 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.

- 8 Furthermore, Corporations Amendment Regulations 2007 (No 2) (Cth), applicable to financial years beginning on or after 30 June 2007, have amended the Regulations as follows:
- (a) incorporated 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.

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- 9 As a result of the above amendments to the Act and Regulations, a disclosing entity that is a company is required to:
- (a) report remuneration information in the Remuneration Report in accordance with section 300A of the Act and Regulation 2M.3.03; and
 - (b) repeat some of this information in its financial report in accordance with AASB 124².
- 10 In order to avoid this duplication, the Australian Accounting Standards Board, in June 2008, issued Accounting Standard AASB 2008-4 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 requirements in AASB 124³ 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's Reporting Requirements

Responsibility to Express an Opinion on the Remuneration Report

- 11 Section 308(3C) of the Act requires that, if the directors' report for the financial year includes a Remuneration Report, the auditor must report also 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.
- 12 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 Auditing Standard ASA 700 *Forming an Opinion and Reporting on a 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 express an opinion on the financial report.⁴
- 13 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 identify clearly the paragraph numbers or pages of the directors' report that have been audited pursuant to section 308(3C)

² AASB 124 paragraphs Aus25.2 to Aus25.6; Aus25.7.1 and Aus25.7.2.

³ See references in footnote 1.

⁴ See ASA 700, paragraph 38.

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of the Act. This is necessary to avoid any misunderstanding by users as to which part of the directors' report has been subjected to audit.

- 14 Furthermore, the auditor's report describes the respective responsibilities of the directors and the auditor in relation to the Remuneration Report. [See Appendix 1 for an illustrative example of an unmodified report].

Materiality

- 15 The suggested form of opinion on the Remuneration Report, included in the Appendices to this Guidance Statement, does not make reference to materiality. An auditor exercises professional judgement in considering reporting responsibilities under the Act, including considering additional regulatory reporting obligations, such as under section 311 of the Act, for significant breaches of the Act.

Modifications

- 16 Modifications to the auditor's report in relation to the Remuneration Report are made in accordance with ASA 705 *Modifications to the Opinion in the Independent Auditor's Report*. [See Appendix 2 for an illustrative example of a modified report].

The Auditor's Report

- 17 The example of an unmodified auditor's report, that is included as Illustration 1A in Appendix 1 of ASA 700 incorporates the audit reporting requirements of the Act and the Auditing Standards. This auditor's report format has been used in the Appendices to this Guidance Statement to illustrate example wording regarding the auditor's reporting responsibilities regarding the Remuneration Report, pursuant to section 308(3C) of the Act.

Conformity with International Pronouncements

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

Appendix 1

(Ref: Para. 14)

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

The illustrative example auditor's report in this Appendix to Guidance Statement GS 018 incorporates the reporting requirements of the Act, including:

- (a) section 308(3C); and
- (b) the Auditing Standards.

The auditor's reporting requirements regarding the Remuneration Report are additional to the auditor's reporting requirements regarding the financial report and, accordingly, are contained in a separate section of the auditor's report following the opinion paragraph on the financial report—see ASA 700, paragraph 38.

[See: **Report on the Remuneration Report** in the example below.]

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INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Financial Report⁵

We have audited the accompanying financial report of ABC Company Ltd., which comprises the statement of financial position as at 30 June 20X1, the statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.⁶

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. [In Note XX, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.⁷]

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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

⁵ The subheading "Report on the Financial Report" is only necessary in circumstances when the auditor addresses "other reporting responsibilities" in accordance with ASA 700, paragraph 38—see also footnote 10 below.

⁶ 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.

⁷ 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.

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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. 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*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ABC Company Ltd., would be in the same terms if given to the directors as at the time of this auditor's report.*

Opinion

In our opinion the financial report of ABC Company Ltd., is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 20X1 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

OR

[In our opinion:

- (a) the financial report of ABC Company Ltd., is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 20X1 and of its performance for the year ended on that date; and

* Or, alternatively, include statements: (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made.

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- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note XX.^{8]}

Report on the Remuneration Report⁹

We have audited the Remuneration Report included in [paragraphs a to b or pages x to y] of the directors' report for the [period] ended 30 June 20X1. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of ABC Company Ltd., for the [period] ended 30 June 20X1, complies with section 300A of the *Corporations Act 2001*.

[Auditor's signature]¹⁰

[Date of the auditor's report]

[Auditor's address]

⁸ 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 705.

⁹ The "Report on the Remuneration Report" is an example of "other reporting responsibilities"—refer ASA 700, paragraph 38. Any additional "other reporting responsibilities" that the auditor needs to address will also be included in a separate section of the auditor's report following the opinion paragraph on the financial report.

¹⁰ ASA 700 requires the auditor's report to be signed in one or more of the following ways: the name of the audit firm, the name of the audit company or the personal name of the auditor as appropriate.

Appendix 2

(Ref: Para. 16)

ILLUSTRATIVE EXAMPLE OF A MODIFIED AUDITOR'S REPORT ADDRESSING THE AUDITOR'S ADDITIONAL REPORTING RESPONSIBILITIES PURSUANT TO SECTION 308(3C) OF THE CORPORATIONS ACT 2001—QUALIFIED OPINION

The illustrative example auditor's report in this Appendix to Guidance Statement GS 018 incorporates the reporting requirements of the Act, including:

- (a) section 308(3C); and
- (b) the Auditing Standards.

The auditor's reporting requirements regarding the Remuneration Report are additional to the auditor's reporting requirements regarding the financial report and accordingly are contained in a separate section of the auditor's report following the opinion paragraph on the financial report—see ASA 700, paragraph 38.

[See: **Report on the Remuneration Report** in the example below.]

Note: As the example below relates to a qualified opinion, the report on the Remuneration Report will need to be amended accordingly where an adverse or disclaimer of opinion is required.

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INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Financial Report¹¹

We have audited the accompanying financial report of ABC Company Ltd., which comprises the statement of financial position as at 30 June 20X1, the statement of comprehensive income, statement of changes in equity, statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information and the directors' declaration.¹²

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. [In Note XX, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.¹³]

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. Those Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control

¹¹ The subheading "Report on the Financial Report" is only necessary in circumstances when the auditor addresses "other reporting responsibilities" in accordance with ASA 700, paragraph 38—see also footnote 17 below.

¹² 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.

¹³ 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.

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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. 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*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of ABC Company Ltd., would be in the same terms if given to the directors as at the time of this auditor's report.*

Opinion

In our opinion the financial report of ABC Company Ltd., is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the company's financial position as at 30 June 20X1 and of its performance for the year ended on that date; and
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

OR

[In our opinion:

- (a) the financial report of ABC Company Ltd., is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's financial position as at 30 June 20X1 and of its performance for the year ended on that date; and

* Or, alternatively, include statements: (a) to the effect that circumstances have changed since the declaration was given to the relevant directors; and (b) setting out how the declaration would differ if it had been given to the relevant directors at the time the auditor's report was made.

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- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note XX.^{14]}

Report on the Remuneration Report¹⁵

We have audited the Remuneration Report included in [paragraphs a to b or pages x to y] of the directors' report for the [period] ended 30 June 20X1. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Basis for Qualified Opinion on the Remuneration Report

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

Qualified Opinion on the Remuneration Report

In our opinion, except for the effect(s) on the Remuneration Report of the matter(s) referred to in the preceding paragraph, the Remuneration Report of ABC Company Ltd., for the [period] ended 30 June 20X1, complies with section 300A of the *Corporations Act 2001*.

[Auditor's signature]¹⁸

[Date of the auditor's report]

[Auditor's address]

¹⁴ 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 705.

¹⁵ The "Report on the Remuneration Report" is an example of "other reporting responsibilities"—refer ASA 700, paragraph 38. Any additional "other reporting responsibilities" that the auditor needs to address, will also be included in a separate section of the auditor's report following the opinion paragraph on the financial report.

¹⁸ ASA 700 requires the auditor's report to be signed in one or more of the following ways: the name of the audit firm, the name of the audit company or the personal name of the auditor as appropriate.