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Explanatory Guide *Explanation of the Impact on the Auditor's Report of Changes to the Financial Reporting Framework*

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



Australian Government

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1. is not an AUASB Guidance Statement that provides guidance to assist auditors and assurance practitioners to fulfil the objectives of the audit or assurance engagement; and
2. does not itself establish or extend requirements for the performance of audit, review, or other assurance engagements under the AUASB Standards.

Disclaimer:

Explanatory Guide *Explanation of the Impact on the Auditor's Report of Changes to the Financial Reporting Framework* has been developed by the Auditing and Assurance Standards Board to describe changes that auditors should make to their auditor's reports when entities prepare financial reports in accordance with the revised requirements of the Australian financial reporting framework. No responsibility is taken for the results of actions or omissions to act on the basis of any information contained in this document or for any errors or omissions in it.

CONTENTS

	<i>Page</i>
Purpose	5
Background	5
The Auditor's Report.....	5
Changes to the Financial Reporting Framework	6
<i>Corporations Act 2001</i>	6
<i>Accounting Standards</i>	11

EXPLANATORY GUIDE

Explanation of the Impact on the Auditor's Report of Changes to the Financial Reporting Framework

Purpose

1. This explanatory paper describes changes that auditors should make to their auditor's reports.
2. The changes are only necessary when entities prepare financial reports in accordance with the revised requirements of the Australian financial reporting framework.

Background

3. The primary financial reporting framework used in Australia comprises the requirements of the *Corporations Act 2001* (the Act) and the Australian Accounting Standards (Accounting Standards). In June 2010, amendments were made to both the Act and the Accounting Standards that included changes to the financial reporting requirements for specific types of entities.

The Auditor's Report

4. The AUASB has determined that the changes to the financial reporting framework, outlined below, do not impact the *requirements* of the Auditing Standards [regardless of the operative dates of those Auditing Standards: 1 July 2006 or 1 January 2010 ("clarity" version)]. Accordingly, no changes will be made to the *requirements* in the Auditing Standards. This decision is made on the basis that the Auditing Standards refer only to the "applicable financial reporting framework" – a generic description.
5. Furthermore, the AUASB has decided that, at this time, it is unnecessary to amend the example auditor's reports contained in the Appendices of the Auditing Standards. This decision is made on the basis that any changes considered appropriate to update the auditor's reports are relatively minor, common sense and are appropriate only if a financial report has been prepared under the revised requirements.
6. Where appropriate, auditors will need to ensure their auditor's reports properly address the changes to the financial reporting framework. To assist auditors to do this, the framework changes are described briefly below and the example auditor's reports extracted from the Appendices of the Auditing Standards, have been updated in the tables that follow.

Important Notes:

- (a) Reference to the phrase "Australian Accounting Interpretations" is shown as a deletion in the following tables of changes to the Auditor's Report. The original inclusion of the phrase was considered appropriate when the Auditing Standards first became legally enforceable, to highlight that the interpretations were part of the Accounting Standards. This emphasis is no longer considered necessary and has not been included in the clarity versions of the Auditing Standards. Auditors may, however, choose not to delete the phrase when using the Auditing Standards operative from 1 July 2006.
- (b) Auditors are reminded that:
 - (i) Changes to an auditor's report are only appropriate in certain circumstances - i.e. when the financial report has been prepared in accordance with the revised financial reporting framework. Otherwise, the example auditor's report in the Auditing Standards remains appropriate in its current format.

- (ii) The changes detailed in the tables below are illustrated by using extracts from only unmodified auditor's reports on general purpose financial reports (GPFs). However, where applicable, auditors will need to use these examples to change auditor's reports for other purposes and where auditor's reports are modified.
- (iii) To illustrate simply, the changes detailed in each of the tables below are restricted intentionally to the particular area of change being described. However, auditors may need to include the changes from more than one of the tables in one auditor's report, as appropriate.
- (c) References in the auditor's reports to "Australian Accounting Standards" and "Australian Accounting Standards – Reduced Disclosure Requirements" use the terminology adopted by the Australian Accounting Standards Board (AASB) in the Preface to AASB 1053 *Application of Tiers of Australian Accounting Standards*.
- (d) The differences marked up in the tables illustrate the basic changes necessary to address the amendments to the financial reporting framework—use of the reduced disclosure requirements (RDR); and inclusion of the parent entity financial information in the notes (only) to the financial statements.
- (e) The examples below are to be used as a guide only. The auditor is still required to determine, in the particular circumstances of the audit engagement, that the financial report complies with all the relevant requirements of the applicable financial reporting framework.

Changes to the Financial Reporting Framework

Corporations Act 2001

- 7. The changes to the Act relate to entities required by Accounting Standards to prepare consolidated financial statements. Specifically, the changes remove the requirement from **section 295(2)** of the Act, for the parent entity to prepare and disclose separate current and preceding financial year results in the consolidated financial statements. Instead, the *Corporations Regulations 2001* now require parent entity supplementary information to be disclosed by way of a note to the consolidated financial statements. Such information is less extensive than previously required.
- 8. The changes to the Act are required to be applied to financial reporting periods ending on or after **30 June 2010**.
- 9. The complete text of the changes to the Act is found in the *Corporations Amendment (Corporate Reporting Reform) Act 2010*.

ASIC Class Order [CO10/654] Inclusion of parent entity financial statements in financial reports

- 10. To overcome some unintended consequences resulting from the *Corporations Amendment (Corporate Reporting Reform) Act 2010*, ASIC has issued **Class Order CO 10/654** which came into effect on 27 July 2010. The Class Order allows companies, registered schemes and disclosing entities that present consolidated financial statements to *include* parent entity financial statements as part of their financial report under Chapter 2M of the *Corporations Act 2001*.
- 11. When an entity utilises the provisions of this class order, the auditor does **not** make changes to the auditor's report, relating to parent entity financial statements, as shown in Tables 1 and 2 below.

Table 1: Changes to the Auditor's Report Resulting from Changes to the Act [Auditing Standards applicable from 1 July 2006]

Copied from:

ASA 700 *The Auditor's Report on a General Purpose Financial Report*

Appendix 2, Example 2

UNMODIFIED AUDITOR'S REPORT PREPARED UNDER THE CORPORATIONS ACT 2001 – CONSOLIDATED ENTITY

INDEPENDENT AUDITOR'S REPORT

To the members of [name of entity]

Report on the Financial Report

We have audited the accompanying financial report of [name of entity], which comprises the [consolidated](#) balance sheet as at 30 June 20XX, and the [consolidated](#) income statement, [consolidated](#) statement of changes in equity and [consolidated](#) cash flow statement for the year ended on that date, a summary of significant accounting policies and other explanatory notes and the directors' declaration of the consolidated entity comprising the [company/registered scheme/disclosing entity] and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the [company/registered scheme/disclosing entity] 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.]

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 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. 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*, provided to the directors of [name of entity] on [date], would be in the same terms if provided to the directors as at the date of this auditor's report.

Copied from:

ASA 700 *The Auditor's Report on a General Purpose Financial Report*

Appendix 2, Example 2

UNMODIFIED AUDITOR'S REPORT PREPARED UNDER THE CORPORATIONS ACT 2001 – CONSOLIDATED ENTITY

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/registered scheme/disclosing entity]'s and~~ consolidated entity's financial position as at 30 June 20XX and of ~~their~~ 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/registered scheme/disclosing entity]'s and~~ consolidated entity's financial position as at 30 June 20XX and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards ~~(including the Australian Accounting Interpretations)~~ and the *Corporations Regulations 2001*; and
- (b) the ~~[consolidated/parent financial statements and notes or~~ financial report] also ~~comply~~ complies with International Financial Reporting Standards as disclosed in Note XX.

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Table 2: Changes to the Auditor's Report Resulting from Changes to the Act [Auditing Standards applicable from 1 January 2010]

Copied from:

ASA 700 Forming an Opinion and Reporting on a Financial Report

Appendix 1, Illustration 3A

CONSOLIDATED ENTITY - CORPORATIONS ACT 2001

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Financial Report

We have audited the accompanying financial report of ABC Company Ltd., which comprises the consolidated statements of financial position as at 30 June 20X1, the consolidated statements of comprehensive income, the consolidated statements of changes in equity and the consolidated statements of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of ~~the company and~~ the consolidated entity comprising the company [registered scheme/disclosing entity] and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company [registered scheme/disclosing entity] 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*.

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 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.

Copied from:

ASA 700 *Forming an Opinion and Reporting on a Financial Report*

Appendix 1, Illustration 3A

CONSOLIDATED ENTITY - CORPORATIONS ACT 2001

Opinion

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 [registered scheme's/disclosing entity's] and~~ consolidated entity's financial positions as at 30 June 20X1 and of ~~their-its~~ performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the *Corporations Regulations* 2001; and
- (b) the ~~[consolidated /parent financial statements and notes or~~ financial report] also ~~comply [complies]~~ with *International Financial Reporting Standards* as disclosed in Note XX.

Report on the Remuneration Report

We have audited the Remuneration Report included in [paragraphs a to b or pages x to y] of the directors' report for the year [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 year [period] ended 30 June 20X1, complies with section 300A of the *Corporations Act 2001*.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Accounting Standards

12. Changes to the Accounting Standards have been effected through the release of 2 new standards:
 - AASB 1053 Application of Tiers of Australian Accounting Standards; and
 - AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements
13. The changes relate *only* to entities that prepare GPFRs. Such entities are now classified, for financial reporting purposes, as either:
 - “Tier 1” on the basis that they are “publicly accountable” or are a government entity (Australian Government and State, Territory and Local Governments); or
 - “Tier 2” on the basis that they are not “publicly accountable”.
14. Reduced Disclosure Requirements (RDR) are *not* available to preparers of Special Purpose Financial Reports.
15. In the case of Tier 1 entities, no changes to the auditor’s report are necessary because such entities cannot apply the RDR.
16. Tier 2 entities, however, can elect to prepare their GPFR in accordance with Australian Accounting Standards using the reduced disclosure requirements (AAS-RDR). Reduced disclosures relate only to the notes to the financial statements. Where reduced disclosures have been adopted, the financial statements will not be IFRS compliant.
17. The changes to the Accounting Standards apply to annual financial reporting periods beginning on or after 1 July 2013, with early adoption permitted for annual financial reporting periods beginning on or after 1 July 2009.
18. The complete text of the changes to the Accounting Standards, including the definition of “publicly accountable”, is found in AASB 1053 and AASB 2010-2.

Table 3: Changes to the Auditor's Report Resulting from Changes to the Accounting Standards [Auditing Standards applicable from 1 July 2006]

Copied from:

ASA 700 *The Auditor's Report on a General Purpose Financial Report*

Appendix 2, Example 1

UNMODIFIED AUDITOR'S REPORT PREPARED UNDER THE CORPORATIONS ACT 2001 – SINGLE CORPORATE ENTITY

TIER 2 ONLY

INDEPENDENT AUDITOR'S REPORT

To the members of [name of entity]

Report on the Financial Report

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.

Directors' Responsibility for the Financial Report

The directors of the [company/~~registered scheme/disclosing entity~~] are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards – [Reduced Disclosure Requirements \(including the Australian Accounting Interpretations\)](#) 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.]~~

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 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. 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*, provided to the directors of [name of entity] on [date], would be in the same terms if provided to the directors as at the date of this auditor's report.

Copied from:

ASA 700 *The Auditor's Report on a General Purpose Financial Report*

Appendix 2, Example 1

UNMODIFIED AUDITOR'S REPORT PREPARED UNDER THE CORPORATIONS ACT 2001 – SINGLE CORPORATE ENTITY

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/registered scheme/disclosed 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 – Reduced Disclosure Requirements ~~(including the Australian Accounting Interpretations)~~ and the *Corporations Regulations 2001*.

OR

~~In our opinion:~~

- ~~(c) — the financial report of [name of entity] is in accordance with the *Corporations Act 2001*, including:
giving a true and fair view of the [company/registered scheme/disclosed entity]'s financial position as at 30 June 20XX and of its performance for the year ended on that date; and
complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and~~
- ~~(d) — the financial report also complies with International Financial Reporting Standards as disclosed in Note XX.]~~

Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities.]

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

Table 4: Changes to the Auditor's Report Resulting from Changes to the Accounting Standards [Auditing Standards applicable from 1 January 2010]

Copied from:

ASA 700 *Forming an Opinion and Reporting on a Financial Report*

Appendix 1, Illustration 1A

SINGLE COMPANY - CORPORATIONS ACT 2001

TIER 2 ONLY

INDEPENDENT AUDITOR'S REPORT

[Appropriate Addressee]

Report on the Financial Report

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 and 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.

Directors' Responsibility for the Financial Report

The directors of the company [~~registered scheme/disclosing entity~~] are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards – Reduced Disclosure Requirements 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.~~

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 relevant to the entity's preparation of the financial report that gives a true and fair view 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.

Copied from:

ASA 700 *Forming an Opinion and Reporting on a Financial Report*

Appendix 1, Illustration 1A

SINGLE COMPANY - CORPORATIONS ACT 2001

Opinion

In our opinion, 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 ~~[registered scheme's/disclosing entity's]~~ financial position as at 30 June 20X1 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards – Reduced Disclosure Requirements and the *Corporations Regulations 2001*; and

~~(b) the financial report also complies with *International Financial Reporting Standards* as disclosed in Note XX.~~

Report on the Remuneration Report

We have audited the Remuneration Report included in [paragraphs a to b or pages x to y] of the directors' report for the year 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 year [period] ended 30 June 20X1 complies with section 300A of the *Corporations Act 2001*.

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

* * *