Australian Government
Australian Accounting Standards Board

Staff FAQs - Remuneration underpayments

These FAQs have been developed by AASB staff, and hence express the view of AASB Staff, not necessarily the AASB itself. Staff FAQs are intended to be helpful material used to guide constituents in the application of AASB Standards, but do not change the requirements of AASB Standards and are not an interpretation of standards. Entities should always consider their own specific facts and circumstances when applying the requirements of AASB Standards.

Introduction

In the last few years, underpayment of wages has become a pressing issue in the Australian economy. Several large businesses have admitted (often inadvertently) underpaying staff. The guidance provided below addresses the accounting treatment of such underpayments.

Underlying fact pattern

Historically, an entity has not paid certain employees in full compliance with applicable industry awards. During the current financial year, the company undertook a review to determine the extent of payment shortfalls to current and former employees, including superannuation contributions.

The company has also made the decision in the current year to compensate all affected employees for the inconvenience of the underpayment that occurred by way of a one-off payment in the amount of $1,500 per employee. This payment is not intended to partially settle the obligation for underpayment (as the amount of the payment shortfall was calculated as a separate payment), but to remediate the employees for any inconvenience.

Issues

- Q1: In what year should the payments be recorded?
- Q2: How do I determine whether any prior year payments are material and require a restatement of the financial statements?
- Q3: What disclosures are required?

Q1: In what year should the payments be recorded?

The main issue to consider is in what period the prior year remuneration shortfall payments and the inconvenience payments should be recorded. The following table sets out the considerations and possible outcomes.

Type of payment	Year of service the payment relates to:	Recognised in financial statements in	Prior period error and restatement?
Underpayment restitution	**Current year service** (Employee service has only been	**Current year**	N/A

(payment shortfalls)	rendered in the current year)		
	Prior year service (Portion of the employee service rendered in the previous year)	Material misstatement – **prior year**	Restate under AASB 108
		Not material misstatement – generally **current year**	May voluntarily adjust in prior year (AASB 101.40A).
Inconvenience payment ($1,500 per employee)	One-off payment not specifically tied to contractual underpayments or any particular year of service	**Current year** Current year one-off compensation payment to affected employees – as the legal obligation for the underpayment was met by the separate compensation for payment shortfalls, there was no legal obligation for the company to make this one-off payment from prior years. Hence the present obligation has only been reached when the company agreed to make the payment to affected employees (i.e. when employees have a valid expectation) – which is in the current year. (AASB 137.14)	N/A

Q2: How do I determine whether prior year underpayments are material and require restatement?

What each employee is entitled to receive, based on past services provided, is outlined in applicable industry awards. This fact gives rise to a present obligation (i.e., underpayment) from a past event (i.e., the employee's service to the company in the prior year(s)).

Prior period errors

To determine whether the underpayment is a prior period error, consider the definition of prior period errors in AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors* (paragraph 5):

- the underpayment results from a failure to use reliable information that was historically available (rates in applicable industry awards);
- this information could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those prior year financial statements;
- the error could be viewed as an oversight or misinterpretation of facts.

Requirements

If the amount involved is considered material, then in accordance with AASB 108.42, the amount would be recorded as an AASB 108 prior period error, i.e., retrospectively.

As defined in AASB 101 *Presentation of Financial Statements* and explained further in AASB Practice Statement 2 *Making Materiality Judgements* (APS 2), information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity. The AASB 101 materiality definition also highlights that an assessment is made on the basis of size (quantitative) and nature (qualitative) factors, or a combination of both. APS 2 further emphasises that an item of information could influence primary users' decisions regardless of its size, and a quantitative threshold could even reduce to zero, such as when information about a transaction, other event or condition is highly scrutinised by the primary users. For further guidance on materiality, see APS 2 *(https://www.aasb.gov.au/admin/file/content102/c3/AASBPS2_12-17.pdf).*

If the entity is in a sector that has been prone to large underpayments or has a large number of employees covered by awards, it is possible that users will have a reasonable expectation that the entity may be at risk of having such underpayments. In these circumstances, any such underpayments might be considered qualitatively material, regardless of the amounts.

If the amount involved is not considered material, then it could be either:

- adjusted prospectively in the current period as a change in estimate; or
- alternatively, the company may still choose to adjust the amount voluntarily in the prior period using the guidance in AASB 101.40A.

Q3: What disclosures are required?

If remuneration shortfall and inconvenience payments are material, regardless of the amounts, the entity should disclose the retrospective restatement of prior period financial statements (AASB101.40C).

The disclosure of prior period errors includes (AASB 108.49):

a) the nature of the prior period error;

b) the amount of the correction for each line item affected and, if applicable, for basic and diluted earnings per share; and

c) the amount of the correction at the beginning of the earliest period presented.

If retrospective restatement is impracticable, the entity discloses the reasons for that assessment and describes how and from when the error was corrected.

If users of the financial statements might reasonably expect a material remuneration underpayment or inconvenience payments issue, but no underpayments have been made or are expected to be identified by the entity, then the reasons for such an assessment might need to be disclosed.

Example

Extract from Woolworths Group Limited

Condensed Notes to the Consolidated Financial Statements
for the half-year ended 5 January 2020

2 RESTATEMENT FOR SALARIED STORE TEAM MEMBER REMEDIATION

In February 2019, a review was initiated which identified that certain salaried store team members across the Group were not paid in full compliance with the Group's obligations under the General Retail Industry Award (GRIA). While the review was continuing to determine the extent of the remediation required, the Group recorded a provision of $50 million for the payment shortfalls as at 30 June 2019, which represented the best estimate at the time of the potential exposure.

In October 2019, the Group announced its commitment to rectify payment shortfalls to current and former salaried team members across the Group employed under the GRIA, including interest and superannuation contributions. Since the announcement in October further progress has been made to analyse prior years for Woolworths Supermarkets, Metro, Endeavour Drinks, and BIG W. At 5 January 2020, the Group has estimated the incremental one-off cost of remediation for the total salary payments shortfall to be $265 million (total salary payment shortfall of $315 million less the $50 million provided at 30 June 2019). Initial payments of $69 million have been made to affected Woolworths Supermarkets and Metro team members for F18 and F19. The total salary payment shortfall of $315 million represents management's best estimate of payment shortfalls against a range of potential outcomes, given the level of estimation required and given the progress of the review to date.

The Group continues to review all the periods over which the payment shortfalls relate and for which records exist. The calculations of the salary payment shortfall involve a substantial volume of data, a high degree of complexity, interpretation, estimations, and are subject to further analysis of prior periods and the Fair Work Ombudsman's ongoing investigation. Determining the historical payment shortfall requires consideration of numerous clauses of the GRIA, which translates into over 2,000 decision rules for the purposes of the Group's analysis, across each year, for every current and former team member. Changes to any of these variables have the potential to result in a future adjustment to the provision in subsequent periods as analysis and work continues. Any changes to the provision in subsequent periods due to revisions of these estimates will be recognised in the Group's Consolidated Statement of Profit or Loss. The Group is working with diligence and care to finalise the review and address the payment shortfalls to our team.

As a consequence of the payment shortfalls, employee benefits expenses, provisions, and deferred tax balances have been understated, however the annual amounts were not material to the performance of the Group in any of the individual periods to which they related. As management considers the cumulative understatement to be material, the understatement has been corrected by restating each of the affected financial statement line items for prior periods in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*.

In addition to the payment shortfall outlined above, the Group has also estimated interest and other remediation costs of $80 million relating to the salary payment shortfall as at the half-year ended 5 January 2020 which have been recognised as a significant item, as outlined in Note 3.

As part of this review, the impact on historical short-term incentive (STI) and long-term incentive (LTI) payments to above store management resulting from prior period payment shortfalls has been reviewed and there is no material impact on STI and LTI payments in prior periods.

As at 5 January 2020 the Group's best estimate for the payment shortfall to salaried store team members for prior periods, and the impacts to the Group's Consolidated Financial Statements in the reporting periods to which they relate, are outlined in the table below.

	RESTATEMENT				
	F19 OPENING RETAINED EARNINGS $M	H1 F19 PROFIT FOR THE PERIOD $M	H2 F19 PROFIT FOR THE PERIOD $M	F19 PROFIT FOR THE PERIOD $M	TOTAL $M
Pre-F18 payment shortfall (including ex-gratia period)	(263)	-	-	-	(263)
F19 payment shortfall	-	(26)	(26)	(52)	(52)
Payment shortfall to salaried store team members for prior periods	(263)	(26)	(26)	(52)	(315)
Less: provisions recognised	-	-	50	50	50
Payment shortfall to salaried store team members for prior periods, net of provisions recognised	(263)	(26)	24	(2)	(265)
Income tax benefit	79	8	(7)	1	80
Payment shortfall to salaried store team members for prior periods, net of tax	(184)	(18)	17	(1)	(185)

Condensed Notes to the Consolidated Financial Statements
for the half-year ended 5 January 2020

2 RESTATEMENT FOR SALARIED STORE TEAM MEMBER REMEDIATION (CONTINUED)

Consolidated Statement of Profit or Loss (extract)

	IMPACT OF RESTATEMENT		
HALF-YEAR ENDED 30 DECEMBER 2018	PREVIOUSLY REPORTED $M	ADJUSTMENTS $M	RESTATED $M
Continuing operations			
Administration expenses	(1,866)	(26)	(1,892)
Profit before income tax	1,374	(26)	1,348
Income tax expense	(412)	8	(404)
Profit for the period from continuing operations	962	(18)	944
Discontinued operations			
Profit for the period from discontinued operations, after tax	59	-	59
Profit for the period	1,021	(18)	1,003

	IMPACT OF RESTATEMENT		
YEAR ENDED 30 JUNE 2019	PREVIOUSLY REPORTED $M	ADJUSTMENTS $M	RESTATED $M
Continuing operations			
Administration expenses	(3,682)	(2)	(3,684)
Profit before income tax	2,227	(2)	2,225
Income tax expense	(668)	1	(667)
Profit for the period from continuing operations	1,559	(1)	1,558
Discontinued operations			
Profit for the period from discontinued operations, after tax	1,200	-	1,200
Profit for the period	2,759	(1)	2,758

Basic and diluted earnings per share attributable to equity holders of the parent entity for the Group and from continuing operations for the prior reporting periods have also been restated. For the half-year ended 30 December 2018, the amount of the correction for both basic and diluted earnings per share attributable to equity holders of the parent entity for the Group was a decrease of 1.3 cents per share, and for continuing operations was a decrease of 1.4 cents per share. The amount of the correction did not have any impact on earnings per share for the year ended 30 June 2019.

Consolidated Statement of Financial Position (extract)

	IMPACT OF RESTATEMENT		
AS AT 25 JUNE 2018	PREVIOUSLY REPORTED $M	ADJUSTMENTS $M	RESTATED $M
Deferred tax assets	271	79	350
Provisions - current	1,451	263	1,714
Net assets	10,849	(184)	10,665
Retained earnings	4,073	(184)	3,889
Total equity	10,849	(184)	10,665

	IMPACT OF RESTATEMENT		
AS AT 30 DECEMBER 2018	PREVIOUSLY REPORTED $M	ADJUSTMENTS $M	RESTATED $M
Deferred tax assets	215	87	302
Provisions - current	1,352	289	1,641
Net assets	11,264	(202)	11,062
Retained earnings	4,267	(202)	4,065
Total equity	11,264	(202)	11,062

Condensed Notes to the Consolidated Financial Statements
for the half-year ended 5 January 2020

2 RESTATEMENT FOR SALARIED STORE TEAM MEMBER REMEDIATION (CONTINUED)

	IMPACT OF RESTATEMENT		
AS AT 30 JUNE 2019	PREVIOUSLY REPORTED $M	ADJUSTMENTS $M	RESTATED $M
Deferred tax assets	311	80	391
Provisions - current	1,528	265	1,793
Net assets	10,669	(185)	10,484
Retained earnings	3,968	(185)	3,783
Total equity	10,669	(185)	10,484