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GS XX

(Revised April 2009)

Guidance Statement GS XX

Responding to Questions at an Annual General Meeting

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

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~~office of the~~ Auditing and Assurance
Standards Board
Level 7
600 Bourke Street
Melbourne Victoria 3000
AUSTRALIA

Phone: (03) 8080 7400
Fax: (03) 8080 7450
E-mail: enquiries@auasb.gov.au

Postal Address:
PO Box 204
Collins Street West
Melbourne Victoria 8007
AUSTRALIA

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Guidance Statement GS XX *Responding to Questions at an Annual General Meeting*

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS XX *Responding to Questions at an Annual General Meeting* as set out in paragraphs 1 to 40, 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 objectives 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 1 April 2009

M H Kelsall
Chairman - AUASB

GUIDANCE STATEMENT GS XX

Responding to Questions at an Annual General Meeting

Application

- 1 This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to auditors on responding to questions at an Annual General Meeting (AGM) of a publicly listed company.

Issuance Date

- 2 This Guidance Statement is issued on 1 April 2009 by the AUASB and replaces AGS 1046 *Responding to Questions at an Annual General Meeting* issued in October 2005.

Introduction

~~3 This Guidance Statement (AGS) has been prepared by the Auditing and Assurance Standards Board (AUASB) to facilitate an efficient approach to questions at an Annual General Meeting (AGM) that reflects an appropriate accountability process within the scope of the auditor's responsibilities.~~

~~3 The *Corporate Law Economic Reform Program (Audit Reform and Corporate Disclosure) Act 2004* amended the *Corporations Act 2001* (the Act) to include further provisions for shareholders members to obtain information relevant to their investment.~~

~~4 Section 250PA of the *Corporations Act 2001* states:~~

~~“(1) A member of a listed company who is entitled to cast a vote at the AGM may submit a written question to the auditor under this section if the question is relevant to:~~

~~(a) (a) the content of the auditor's report to be considered at the AGM; or~~

~~(b) (b) the conduct of the audit of the annual financial report to be considered at the AGM.~~

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The member submits the question to the auditor under this subsection by giving the question to the listed company no later than the fifth business day before the day on which the AGM is held.”

5 Section 250T of the ~~Corporations~~ Act ~~2001~~ states:

“(1) If the company’s auditor or their representative is at the meeting, the chair of an AGM must:

- (a) allow a reasonable opportunity for the members as a whole at the meeting to ask the auditor or the auditor’s representative questions relevant to:
 - (i) the conduct of the audit; and
 - (ii) the preparation and content of the auditor’s report; and
 - (iii) the accounting policies adopted by the company in relation to the preparation of the financial statements; and
 - (iv) the independence of the auditor in relation to the conduct of the audit; and
- (b) allow a reasonable opportunity for the auditor or their representative to answer written questions submitted to the auditor under section 250PA.”

6 These provisions can assist the ~~shareholder member~~ to seek information in relation to the audit, which is the responsibility of the auditor.

7 “Those charged with governance” includes those persons accountable for ensuring that the entity achieves its objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, compliance with applicable laws, and reporting to interested parties. Those charged with governance include management only when it performs such functions. In the context of this Guidance Statement, those charged with governance includes those persons accountable for the preparation for, and conduct of, an Annual General Meeting. For some entities, in addition to the directors, this may include management, for example, the Company Secretary.

Auditor's Responsibilities in Responding to Questions

- 8 In contrast to the responsibilities of ~~an entity's management~~ those charged with governance for all aspects of the business, the auditor has specific responsibilities which are established by the ~~Corporations Act 2001~~, but may be extended when agreed with the entity as part of the terms of the engagement. ~~Shareholders Members~~ may not be generally familiar with the scope of an audit. Therefore, without due consideration of the role of the auditor, there is the risk that questions from ~~shareholders members~~ may be directed to the auditor on matters that should be addressed by ~~director~~ those charged with governance.
- 9 The auditor does not respond to questions dealing with issues beyond the scope of the audit mandate and/or questions relating to matters that are the responsibility of ~~the director~~ those charged with governance. Therefore it is important that the auditor, together with the Chair of the AGM and others ~~directors~~ charged with governance, adequately prepare for participation at an AGM. If auditors are asked to respond to inappropriate questions or if responses are not understood in an appropriate context, there is the risk that any information provided could be misleading.

AGM Planning

- 10 Adequate planning and preparation for the AGM enable authoritative responses to be provided to questions raised. The auditor prepares for questions that may be received whether in writing before the AGM or verbally at the AGM.
- 11 The Chair should be familiar with the responsibility and authority of both ~~the director~~ those charged with governance and the auditor, and with matters arising from the financial report, to ensure that inappropriate questions do not delay proceedings. A question is inappropriate if the person to whom it has been directed is not able to respond with an appropriate level of authority.
- 12 Auditors assist the AGM planning process by meeting with the Chair and directors in an AGM planning meeting, and/or by having discussions with directors, management, and/or audit committee members, to ascertain whether there are particular issues which are likely to be of interest.
- 13 The auditor ascertains the protocol for questions at the AGM from the Chair of the AGM prior to the meeting. Usually, the Chair will communicate to the meeting the protocol for presenting questions

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and, as a rule, questions are to be addressed to the Chair who can direct them to the appropriate respondent.

- 14 Questions directed to the auditor may not be within the scope of the audit or the auditor's responsibilities. The auditor refers such questions to the Chair of the AGM. If the question is about an area where the responsibility is divided between the auditor and ~~the director~~those charged with governance, the auditor endeavours to respond and invites the Chair to consider the question as well. For example, a question on accounting policies might be put to the auditor. The auditor can state that the policy complies with Australian Accounting Standards. ~~The directors~~The Chair and/or others charged with governance may explain the choice of that policy within the allowable choices available under Australian Accounting Standards. Where the auditor plans to ask ~~the director~~those charged with governance to respond to a written question directed to the auditor, the auditor informs the Chair of ~~the~~ intention. This enables ~~the director~~those charged with governance to provide an appropriate response at the AGM.
- 15 Written questions are to be encouraged to ensure that an informed, authoritative response can be provided by the relevant party. If written questions are received before the AGM the company will pass these questions to the auditor. The auditor ensures that responses to such questions are prepared prior to the meeting. Where written questions have been received, the auditor considers whether a written response to the meeting is appropriate.
- 16 Prior notification of issues enables the auditor to seek professional consultation and/or legal advice if appropriate. However, some members may prefer to reserve questions for the meeting. Adequate planning is imperative to identify areas of potential interest to ensure that questions directed to the auditor at the AGM can be properly addressed.

Context

- 17 In response to any question at the AGM, the auditor first conveys to the meeting the context within which the auditor's response is provided by explaining key aspects of an audit which include:
- (a) The auditor conducts an audit in accordance with Australian Auditing Standards, as required by the Act.
 - (b) The auditor is not responsible for the preparation and fair presentation of the financial report. This is the responsibility of those charged with governance.

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- (c) ~~The auditor provides reasonable, not absolute, assurance on that the financial report taken as a whole is free from material misstatement.~~
- (d) ~~The objective of an audit of a financial report is to enable the auditor to express an opinion as to whether the financial report is prepared, in all material respects, in accordance with the applicable financial reporting framework, such as the Act and Australian Auditing Standards. The auditor conducts an audit in accordance with Auditing Standards. Under the CLERP 9 reforms enacted by the Commonwealth Government in 2004, the Auditing Standards have been given legal backing.~~
- (e) ~~The audit involves performing procedures to obtain audit evidence about amounts and disclosures in the financial report.~~
- (f) ~~The auditor determines the procedures required to conduct an audit in accordance with Australian Auditing Standards, having regard to the requirements of Auditing these Standards, as well as the Act, other legislation, regulations and, when appropriate, the terms of the audit engagement and reporting requirements.~~
- (g) ~~The auditor exercises professional judgement in selecting audit procedures to be performed. Audit procedures include the assessment of the risks of material misstatement of the financial report whether due to fraud or error. In making such risk assessments, the auditor considers internal controls 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.~~
- (h) ~~The audit involves a systematic examination for which audit-based skills, which include such skills such as analysis of financial information, knowledge of internal control structures, risk assessment, sample selection, knowledge of accounting standards and other aspects of reporting, are required.~~
- (i) ~~The auditor's report does not provide assurance in relation to individual elements of the financial report, or other aspects of operations such as the adequacy of the entity's~~

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systems of internal control or the selection of accounting policies.

Responses to Questions

18 The auditor responds to questions relevant to the conduct of the audit, ~~and~~ the preparation and content of the auditor's report, ~~the accounting policies adopted by the company in relation to the preparation of the financial report and the independence of the auditor.~~ Prior to responding to questions~~In particular,~~ the auditor clearly communicates the legal requirement for an auditor to conduct an audit of a financial report in accordance with Australian Auditing Standards and the scope of the audit prior to providing the information. ~~The auditor also has regard to the legal responsibilities which relate to the role of auditor.~~ However, ~~†~~the auditor is not able to provide an authoritative response to questions dealing with issues that go beyond the scope of the audit mandate and/or questions which should have been addressed to ~~the director~~those charged with governance, and therefore such questions are declined by the auditor. The following are a number of factors which the auditor takes into account when considering questions.

Auditor Independence

19 The auditor responds to question about auditor independence with reference to the Act¹, Australian Auditing Standards and relevant ethical requirements² and the Corporations Act 2001. ~~section 307C of the Corporations Act 2001 requires the~~ Where an individual auditor or an audit firm or audit company has prepared an a written Auditor auditor Independence independence Declaration~~declaration~~ in accordance with section 307C of the Act, the auditor may choose to refer to the Declaration~~declaration~~ in responding to questions at the annual report~~AGM~~.

Audit Approach and Audit Plan

20 Auditing Standard ASA 200 Objective and General Principles Governing an Audit of a Financial Report requires the auditor to plan and perform an audit by exercising professional judgement and with an attitude of professional scepticism recognising that circumstances may exist that cause the financial report to be materially misstated.

¹ See Part 2M.4 Division 3 of the Act relating to the requirements for auditor independence.

² See APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board.

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21 In accordance with ASA 300 Planning an Audit of a Financial Report. ~~The auditor uses exercises~~ professional judgement to assess audit risk and to design audit procedures to ensure ~~it~~ audit risk is reduced to an acceptable level. The auditor's assessment of risk requires as prerequisites both a "knowledge of the business" (economy, industry, entity operations, management, legislation and regulation) and an assessment of materiality. When ~~shareholders~~ members raise questions relating to the audit approach or audit plan it is likely possible that they will not have an understanding of these prerequisites, nor of their significance to the audit process. Similarly ~~shareholders' members'~~ perceptions of risk may vary considerably. Therefore the auditor informs the meeting about the auditor's approach to risk with reference to AUS 402-ASA 315 Understanding the Entity and Its Environment and Assessing the Risks of material-Material Misstatement and ASA 330 The Auditor's Procedures in Response to Assessed Risks.

22 It is unlikely possible that ~~the members may not be familiar with the relevant legal requirements governing an audit of a financial report. basic principles and essential procedures mandated by auditing standards will be familiar to shareholders.~~ Responses to questions at ~~AGMs an AGM~~ provide an opportunity to inform ~~shareholders~~ members of the Requirements mandated by Australian Auditing Standards professional standards, relevant requirements of the Act employed in the audit process and of the professional and ethical standards² principles governing the auditor's professional responsibilities. It provides further opportunity to explain that adherence to Australian Auditing Standards and professional ethics ensure promote quality in the audit process and provide evidence of commitment to due care.

Audit Procedures

23 Questions which relate to specific audit procedures and/or in relation to specific parts of the financial report, are addressed by reference to the fact that the auditor's report relates to the financial report taken as a whole. It is explained that i In this context, it is not appropriate for the auditor to address individual audit procedures or financial report components. The auditor indicates that the nature of audit procedures result in many types of audit evidence being obtained and drawn upon to provide sufficient appropriate audit evidence for any one area with which to form an opinion on a financial report. Hence, ~~eDiscussion consideration~~ of particular procedures in isolation could be misleading. ~~In many instances the auditor will be able to refer to the relevant Auditing Standard to provide further details of the approach taken.~~

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24 Auditors may also find it useful to refer to ASA 100 *Preamble to AUASB Standards*, which sets out how the AUASB Standards are to be understood, interpreted and applied, to explain that Australian Auditing Standards contain ~~the~~ mandatory requirements ~~which are complied with relating to~~ in the planning, conduct and reporting of an audit. Each Auditing Standards describes the procedures to be performed for various aspects of the audit, and ~~are~~ is relevant only as an integral components of the whole audit process.

Accounting Policies

25 Members may request the auditor to comment on accounting policies adopted by the entity. Selection of accounting policies is the responsibility of ~~the entity's management~~ those charged with governance, therefore the auditor responds to the question by stating that the policies comply, or do not comply, with Australian Accounting Standards. ~~The directors~~ Those charged with governance may like to comment on the appropriateness of the choice of accounting policies within those choices permitted by Australian Accounting Standards.

Internal Control

26 The auditor ensures that responses given in respect of questions on internal control are provided within the context of the financial report audit. An audit of a financial report conducted in accordance with Australian Auditing Standards is not designed to, and therefore does not, provide sufficient appropriate evidence on which to base an opinion on the adequacy of the internal control structure. Evidence on which to base an opinion on internal control would require the application of audit procedures beyond the scope of an audit of a financial report.

27 In particular, the auditor clearly communicates that assurance is not provided on internal control, but rather that control procedures are examined only to the extent that reliance thereon might reduce other audit work. An auditor engaged to report on the financial report has no responsibility under Australian Auditing Standards to understand and evaluate the internal control structure beyond that level sufficient to plan and develop an effective audit approach unless there is a specific statutory, regulatory or additional contractual requirement to the contrary. Questions regarding internal control should be addressed to ~~the board of director~~ those charged with governance who ~~have the responsibility~~ are responsible for ensuring that an adequate internal control structure exists. (See also paragraph 17(g) above.)

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~~Audit Findings and~~ The Auditor's Report

Report on the Financial Report

- 28 The auditor provides assurance on the financial report taken as a whole. Hence individual items are audited within the framework of materiality appropriate to the financial report as a whole, rather than a materiality level appropriate to a specific individual item. Since audit procedures are not directed towards providing assurance on specific items, the auditor explains why providing such information might be misleading, and ordinarily explains, in general terms, the requirements of Australian Auditing Standards. The auditor may conclude by referring the question to the Chair.
- 29 Members may be interested in errors detected by the auditor and/or disagreements with management. The auditor explains the significance of an unqualified-unmodified report to indicate that any errors or disagreements have been satisfactorily resolved and that such items are considered in the context of materiality appropriate to the financial report as a whole.
- 30 The auditor responds to questions about the auditor's report by referring to the auditor's report included with the financial report. Where necessary, the auditor explains the meaning of the terms used in the auditor's report.

Report on Other Legal and Regulatory Requirements

- 31 In some cases, the auditor may have additional responsibilities to report on other matters that are supplementary to the auditor's responsibility to express an opinion on the financial report.
- 32 For example, the auditor may be asked to report certain matters if they come to the auditor's attention during the course of the audit of the financial report. Alternatively, the auditor may be asked to perform and report on additional specified procedures, or to express an opinion on specific matters. When the audit is conducted pursuant to the Act, section 308(3)(b) also requires the auditor to report on any deficiency, failure or shortcoming in respect of certain matters relating to the completeness of information, explanation and assistance given to the auditor and the maintenance of financial and other records by the entity³. These items are referred to in the auditor's report if there is cause for concern; alternatively, silence in the auditor's report indicates satisfaction.

³ See ~~Corporations Act 2001~~ the Act section 307(b), (c) ~~and~~ (d).

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33 When the auditor addresses other reporting responsibilities within the auditor's report on the financial report, these other reporting responsibilities are included in a separate section of the auditor's report that follows the opinion on the financial report.

34 The auditor responds to questions relating to these other matters by reference to the auditor's report.

Corporations Act 2001 Exception Basis of Reporting

~~The Corporations Act 2001 Section 308(3)(b) also requires the auditor to report on certain matters if the auditor has observed any deficiency, failure or shortcoming. These matters include whether all the information and explanations needed by the auditor have been obtained, and whether proper financial record and other record required by the Corporations Act 2001 have been maintained. These items are referred to in the auditor's report if there is cause for concern; alternatively silence in the auditor's report indicates satisfaction.~~

~~The auditor responds to questions relating to these other matters by reference to the auditor's report provided.~~

Modification to the Independent Auditor's Report

35 If the auditor has issued a modified auditor's report the auditor may expect to be asked questions about issues leading to that modification ~~or qualification~~. The auditor addresses any such questions by reference to the auditor's report. Auditors are reminded that ~~AUS 702, The Independent Auditor's Report on a Complete General Purpose Financial Report~~ ASA 701 Modifications to the Auditor's Report requires that the auditor's report includes all relevant information to explain matters ~~that result~~ ing in a modified auditor's report.

36 In certain circumstances the auditor may seek legal advice or professional consultation in preparing responses to issues raised in respect of a modified auditor's report. If further information regarding such issues is required, it may be more appropriate for the auditor to request that ~~the directors~~ those charged with governance provide the response.

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Audit Files

37 While responses given by the auditor will be supported by sufficient appropriate audit evidence, audit files are not taken into the AGM. The level of detail relating to specific issues, as contained in audit files, is not appropriate in responses to questions at AGMs.

Auditor's Representative at the AGM

38 On those occasions when the auditor is not able to attend an AGM and questions for the auditor have been notified, the auditor arranges for a representative to attend the meeting on the auditor's behalf. In this situation, the auditor ensures that the representative has sufficient knowledge of the engagement and is provided with sufficient information to provide an adequate response to the matters raised.

Inability to Provide a Response to a Question

39 Where questions have not been notified prior to the meeting, a question may arise in relation to the audit to which the auditor is not able to provide an immediate response. For example, the auditor may wish to seek legal advice prior to providing the response. In these circumstances, the auditor, in conjunction with the entity's management, makes alternative arrangements, as appropriate, to communicate the information to the members. This may include posting the response on the entity's website.

Operative Date

~~This AGS is operative from the date of issue. This version of AGS 1046 supersedes AGS 1046, "Responding to Questions at an Annual General Meeting", as revised in October 2002.~~

Conformity with International Pronouncements

40 ~~There is no equivalent International Standard on Auditing or International Auditing Practice Statement to this Guidance Statement.~~