

GS 010
(March 2009)

Guidance Statement GS 010
*Responding to Questions at an
Annual General Meeting*

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



Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Guidance Statement

This Guidance Statement is available on the AUASB website:
www.auasb.gov.au.

Contact Details

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

COPYRIGHT

© 2009 Auditing and Assurance Standards Board (AUASB). The text, graphics and layout of this Guidance Statement are protected by Australian copyright law and the comparable law of other countries. Reproduction within Australia in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgment of the source. Requests and enquiries concerning reproduction and rights for commercial purposes within Australia should be addressed to the Executive Director, Auditing and Assurance Standards Board, PO Box 204, Collins Street West, Melbourne Victoria 8007. Otherwise, no part of the Guidance Statement may be reproduced, stored or transmitted in any form or by any means without the prior written permission of the AUASB except as permitted by law.

ISSN 1833-7600

CONTENTS

AUTHORITY STATEMENT	<i>Paragraphs</i>
Application.....	1
Issuance Date	2
Introduction.....	3
Definition	4
Written Questions to the Auditor before the AGM.....	5-10
Questions to the Auditor at the AGM	11
Auditor’s Responsibilities in Responding to Questions.....	12-13
AGM Planning	14-20
Context.....	21
Responses to Questions.....	22-38
Modification to the Independent Auditor’s Report	39-40
Audit Files.....	41
Auditor’s Representative at the AGM.....	42
Inability to Provide a Response to a Question	43
Conformity with International Pronouncements	44

Guidance Statement GS 010 *Responding to Questions at an Annual General Meeting*

AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 010 *Responding to Questions at an Annual General Meeting* as set out in paragraphs 1 to 44, 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 12 March 2009

M H Kelsall
Chairman - AUASB

GUIDANCE STATEMENT GS 010

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 listed public company.

Issuance Date

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

Introduction

- 3 The *Corporations Act 2001* (the Act) includes provisions for members to obtain information from the auditor relevant to their investment by submitting written questions before the AGM or by raising questions at the AGM.

Definition

- 4 “Those charged with governance” include 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 include those persons accountable for the preparation for, and conduct of, an AGM. For some entities, in addition to the directors, this may include management, for example, the company secretary.

Written Questions to the Auditor before the AGM

- 5 Section 250PA of the Act 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) the content of the auditor’s report to be considered at the AGM; or
 - (b) the conduct of the audit of the annual financial report to be considered at the AGM.
- 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.”
- 6 In accordance with section 250PA(3) of the Act, the listed company must pass the question on to the auditor as soon as practicable after the question is received by the company, even if the company believes the question is not relevant to the matters specified in section 250PA(1)(a) and (b).
- 7 In accordance with sections 250PA(4) and (5) of the Act, the auditor must prepare, and give to the listed company, a list of the questions that the listed company has passed on to the auditor which the auditor considers to be relevant to the matters specified in section 250PA(1)(a) and (b). This must be done as soon as practicable after the end of the time for submitting questions under section 250PA(1) and a reasonable time before the AGM.
- 8 The listed company must, at or before the start of the AGM, make copies of the question list reasonably available to the members attending the AGM.
- 9 In accordance with section 250T(1)(b) of the Act, if the auditor or their representative is at the AGM¹, the chair must allow a reasonable opportunity for the auditor or their representative to answer written questions submitted to the auditor under section 250PA.

¹ See section 250RA of the Act relating to the requirement for a listed company’s auditor to attend the company’s AGM at which the audit report is considered.

Guidance Statement GS 010 *Responding to Questions at an Annual General Meeting*

- 10 In accordance with sections 250T(3) and (4) of the Act, the auditor may be permitted to table a written answer to a written question submitted to the auditor under section 250PA and the listed company must make that written answer reasonably available to members as soon as practicable after the AGM.

Questions to the Auditor at the AGM

- 11 In addition to submitting written questions to the auditor prior to the AGM², members are able to direct questions to the auditor at the AGM. Section 250T of the Act states:

“(1) If the company’s auditor or their representative is at the meeting³, 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.”

Auditor’s Responsibilities in Responding to Questions

- 12 In contrast to the responsibilities of those charged with governance for all aspects of the business, the auditor has specific responsibilities which are established by the Act⁴, but which may be extended when agreed with the entity as part of the terms of the

² See paragraphs 5-10 of this guidance statement.

³ See section 250RA of the Act relating to the requirement for a listed company’s auditor to attend the company’s AGM at which the audit report is considered.

⁴ See Part 2M.3 Division 3 of the Act.

Guidance Statement GS 010 *Responding to Questions at an Annual General Meeting*

engagement. 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 members may be directed to the auditor on matters that should be addressed by those charged with governance.

- 13 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 those charged with governance. Therefore it is important that the auditor, together with the chair of the AGM and others 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

- 14 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.
- 15 The chair should be familiar with the responsibility and authority of both 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.
- 16 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.
- 17 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 and, as a rule, questions are to be addressed to the chair who can direct them to the appropriate respondent.
- 18 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 those

Guidance Statement GS 010 *Responding to Questions at an Annual General Meeting*

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 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 those charged with governance to respond to a written question directed to the auditor, the auditor informs the chair of the intention. This enables those charged with governance to provide an appropriate response at the AGM.

- 19 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.
- 20 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

- 21 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.
 - (c) The auditor provides reasonable, not absolute, assurance 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

Guidance Statement GS 010 *Responding to Questions at an Annual General Meeting*

report is prepared, in all material respects, in accordance with the applicable financial reporting framework, such as the Act and Australian Accounting Standards.

- (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 these Standards, as well as the Act, other legislation and, when appropriate, the terms of the audit engagement.
- (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 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 systems of internal control or the selection of accounting policies.

Responses to Questions

- 22 The auditor responds to questions relevant to the conduct of the audit, 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. The auditor is not able to provide an authoritative response to questions dealing with issues that go beyond the scope of the

Guidance Statement GS 010 *Responding to Questions at an Annual General Meeting*

audit mandate and/or questions which should have been addressed to those charged with governance, and therefore such questions are declined by the auditor. Paragraphs 23–38 below discuss a number of factors which the auditor takes into account when considering questions.

Auditor Independence

- 23 The auditor responds to question about auditor independence with reference to the Act⁵, Australian Auditing Standards and relevant ethical requirements⁶. Where an individual auditor or an audit firm or audit company has prepared a written auditor independence declaration in accordance with section 307C of the Act, the auditor may choose to refer to the declaration in responding to questions at the AGM.

Audit Approach and Audit Plan

- 24 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.
- 25 In accordance with ASA 300 *Planning an Audit of a Financial Report*, the auditor exercises professional judgement to assess audit risk and to design audit procedures to ensure 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 members raise questions relating to the audit approach or audit plan it is possible that they will not have an understanding of these prerequisites, nor of their significance to the audit process. Similarly members' perceptions of risk may vary considerably. Therefore the auditor informs the meeting about the auditor's approach to risk with reference to ASA 315 *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement* and ASA 330 *The Auditor's Procedures in Response to Assessed Risks*.
- 26 It is possible that members may not be familiar with the relevant statutory requirements governing an audit of a financial report.

⁵ See Part 2M.4 Division 3 of the Act relating to the requirements for auditor independence.

⁶ See APES 110 *Code of Ethics for Professional Accountants* issued by the Accounting Professional and Ethical Standards Board.

Guidance Statement GS 010 *Responding to Questions at an Annual General Meeting*

Responses to questions at an AGM provide an opportunity to inform members of the requirements mandated by Australian Auditing Standards, relevant requirements of the Act and the professional and ethical standards⁶ governing auditors. It provides further opportunity to explain that adherence to Australian Auditing Standards and professional ethics promote quality in the audit process and commitment to due care.

Audit Procedures

- 27 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. 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 with which to form an opinion on a financial report. Discussion of particular procedures in isolation could be misleading.
- 28 Auditors may find it useful to refer also 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 mandatory requirements relating to the planning, conduct and reporting of an audit. Each Auditing Standard describes the procedures to be performed for various aspects of the audit, and is relevant only as an integral component of the whole audit process.

Accounting Policies

- 29 Members may request the auditor to comment on accounting policies adopted by the entity. Selection of accounting policies is the responsibility of 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. Those charged with governance may wish to comment on the appropriateness of the choice of accounting policies within those choices permitted by Australian Accounting Standards.

Internal Control

- 30 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

Guidance Statement GS 010 *Responding to Questions at an Annual General Meeting*

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.

- 31 In particular, the auditor communicates clearly 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 those charged with governance who are responsible for ensuring that an adequate internal control structure exists. (See also paragraph 21(g) above.)

The Auditor's Report

Report on the Financial Report

- 32 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.
- 33 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.
- 34 Members may be interested in errors detected by the auditor and/or disagreements with management. The auditor explains the significance of an unmodified report to indicate that any errors or disagreements have been resolved satisfactorily and that such items are considered in the context of materiality appropriate to the financial report as a whole.

Guidance Statement GS 010 *Responding to Questions at an Annual General Meeting*

Report on Other Legal and Regulatory Requirements

- 35 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.
- 36 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 entity⁷. 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.
- 37 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.
- 38 The auditor responds to questions relating to these other matters by reference to the auditor's report.

Modification to the Independent Auditor's Report

- 39 If the auditor has issued a modified auditor's report, the auditor may expect to be asked questions about issues leading to that modification. The auditor addresses any such questions by reference to the auditor's report. Auditors are reminded that ASA 701 *Modifications to the Auditor's Report* requires that the auditor's report includes all relevant information to explain matters that result in a modified auditor's report
- 40 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 those charged with governance provide the response.

⁷ See sections 307(b), (c) and (d) of the Act.

Audit Files

- 41 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

- 42 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

- 43 A question may arise at the AGM 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.

Conformity with International Pronouncements

- 44 There is no equivalent International Standard on Auditing or International Auditing Practice Statement to this Guidance Statement.