

*Technical Bulletin*

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# Guidance to the Auditor when Responding to Questions at an Annual General Meeting

\* This Technical Bulletin has been updated for Companies Ordinance (Cap. 622) and the new and revised Hong Kong Standards on Auditing which became effective on 3 March 2014 and for audits of financial statements with periods ended on or after 15 December 2016 respectively.

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Hong Kong Institute of  
**Certified Public Accountants**  
香港會計師公會

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**This Technical Bulletin is based on the Guidance Statement GS 010 *Responding to Questions at an Annual General Meeting* published by the Auditing and Assurance Standards Board of the Australian Government (AUASB) in March 2009 and Auditing Standard 780N on the auditor's role in the annual general meeting of shareholders published by the Royal Netherlands Institute of Registeraccountants in March 2006 (RNIVRA) and are used with the permission of AUASB and RNIVRA. The contents of GS 010 and Auditing Standard 780N have been tailored for the circumstances in Hong Kong.**

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**HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS**

**TECHNICAL BULLETIN**

**GUIDANCE TO THE AUDITOR WHEN RESPONDING TO QUESTIONS  
AT AN ANNUAL GENERAL MEETING**

(Issued March 2012, Revised March 2017)

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## INTRODUCTION

1. The purpose of this Technical Bulletin ("AATB") is to provide guidance to the auditor on responding to questions at an Annual General Meeting ("AGM") of a company listed on The Stock Exchange of Hong Kong Limited ("The Stock Exchange").
2. The Stock Exchange in October 2011 amended the Main Board/GEM Listing Rules relating to the Corporate Governance Code ("the revised Code") and associated Listing Rules. One of the amendments is the new provision (E.1.2) in the revised Code that an issuer's management should ensure the external auditor attend the AGM to answer questions about the conduct of the audit, the preparation and content of the auditor's report, the accounting policies and auditor independence. The revised Code is effective from 1 April 2012, and accordingly an auditor is expected to attend and answer questions at an AGM that is held on or after 1 April 2012.
3. This AATB has been prepared in consultation with the staff of The Stock Exchange and the staff of the Securities and Futures Commission.

## DEFINITION

4. (a) "Those charged with governance" – The person(s) or organization(s) (for example, a corporate trustee) with responsibility for overseeing the strategic direction of the entity and obligations related to the accountability of the entity. This includes overseeing the financial reporting process. For some entities in some jurisdictions, those charged with governance may include management personnel, for example, executive members of a governance board of a private or public sector entity, or an owner-manager. For discussion of the diversity of governance structures, see paragraphs A1- A8 of HKSA 260 (Revised) *Communication with Those Charged with Governance*. In the context of this AATB, 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.
- (b) "Key audit matters" – Those matters that, in the auditor's professional judgment, were of most significance in the audit of the financial statements of the current period. Key audit matters are selected from matters communicated with those charged with governance.
- (c) "Other information" – Financial or non-financial information (other than financial statements and the auditor's report thereon) included in an entity's annual report. Annual report is defined in paragraph 12(a) of HKSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information*.

## QUESTIONS TO THE AUDITOR AT THE AGM

5. In accordance with E.1.2 of the revised Code, the management of a company should ensure the company's auditor<sup>1</sup> attends the AGM to answer questions relevant to:
  - (i) the conduct of the audit;
  - (ii) the preparation and content of the auditor's report;
  - (iii) the accounting policies adopted by the company in relation to the preparation of the financial statements; and

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<sup>1</sup> For the purpose of this AATB, "the company's auditor" means:  
(a) the person who is the engagement partner; or  
(b) the director responsible for the performance of the audit engagement if it is a corporate practice; or  
(c) a person representing the auditor who is in a position to answer questions about the audit.

- (iv) the independence of the auditor in relation to the conduct of the audit.

## AUDITOR'S RESPONSIBILITIES IN RESPONDING TO QUESTIONS

6. Section 411(1) of the Hong Kong Companies Ordinance<sup>2</sup> (the "Ordinance") states that while holding office, the auditor is entitled to attend any general meeting of the company and be heard, at any of the company's general meetings, on any part of the business of the meeting that concerns the person as auditor of the company. Whilst the Ordinance gives the auditor the right to attend the AGM, the provisions in the revised Code do not govern the auditor directly. An auditor may seek legal advice or professional consultation in respect of his/her responsibilities in responding to questions. The auditor's responsibilities in responding to questions at an AGM should be established in writing.
7. 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 Ordinance, but which may be extended when agreed with the company as part of the terms of the engagement. Members of the company 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.
8. 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 those charged with governance, adequately prepare for their participation at an AGM. If the auditor is asked to respond to inappropriate questions or if responses are not understood in an appropriate context, there is the risk that any answers provided could be misleading.
9. In general, the auditor does not have responsibility for the statements made by management or those charged with governance. However if, during the AGM, the auditor concludes that, in his/her view, management or those charged with governance have made a statement that is materially inconsistent with the audited financial statements or the information obtained during the audit, or it is concluded by the auditor to be a material misstatement of fact, the auditor would bring this to the attention of management or those charged with governance present at the AGM. It is the responsibility of management or those charged with governance to consider whether any correction of the statement should be made (either during or after the AGM as appropriate). However if the inconsistency would constitute a fact that, had it been known to the auditor at the date of the auditor's report, may have caused the auditor to amend the auditor's report, the auditor would refer to HKSA 560 *Subsequent Events* for guidance.

## AGM PLANNING

10. Adequate planning and preparation for the AGM enables authoritative responses to be provided to questions raised. The auditor prepares for questions that may be received either in writing before the AGM or verbally at the AGM.
11. The chair of the AGM should be familiar with the responsibility and authority of the auditor and those charged with governance, and with matters arising from the financial statements, 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.

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<sup>2</sup> For a company incorporated in Hong Kong, see section 411 of the Hong Kong Companies Ordinance (Cap. 622). For a company incorporated outside Hong Kong, reference should be made to other legislation which imposes on such persons responsibilities comparable to those imposed on an auditor by the Ordinance. Where there is no such equivalent legislation in a jurisdiction outside Hong Kong, the relevant provisions in the Main Board/GEM Listing Rules or professional standards apply.

12. The auditor assists 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 gains an understanding from management of the arrangement of appropriate representatives from the company who would attend the AGM (e.g. those charged with governance, independent non-executive directors, audit committee members).
14. 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.
15. The auditor agrees with the chair of the AGM prior to the meeting the language to be used when responding to questions and requests the company to make the necessary arrangements if different languages are anticipated.
16. 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 charged with governance, the auditor endeavours to respond and invites the chair to consider the question as well. Where the auditor plans to ask those charged with governance to respond to a written question<sup>3</sup> 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.
17. If written questions<sup>3</sup> are received before the AGM, the company should 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.
18. 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.
19. When planning for the AGM, the auditor should consider matters that have been communicated as key audit matters ("KAM") in the auditor's report and the questions members are likely to ask in respect of topics including the nature of KAM, how KAM are selected, and the audit procedures performed or the conclusion reached in respect of KAM.
20. In connection with the possible attendance at the AGM of non-members, the auditor ensures that for the purpose of responding to questions at the AGM, the release of the auditor from the confidentiality obligation with regard to these non-members is laid down in advance.

It is recommended that:

- the release be requested in writing;
  - the auditor includes the release in the engagement letter for the audit; and
  - the release be requested every year (if not already included in the engagement letter for the audit).
21. The auditor may need to consider confidentiality obligations which may be imposed by other relevant laws and regulators, e.g. the PRC State Secrets Law.

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<sup>3</sup> A company may put in place its own arrangements if it wishes to do so, for members to submit written questions to the auditor, via the company prior to an AGM. Additional guidance is provided in paragraphs 56 to 61.

## CONTEXT

22. Members are to be made aware of the limitations of the auditor's role at the outset of an AGM or before members ask the auditor questions. Accordingly, the auditor first conveys at the outset to the meeting or before members ask questions 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 Hong Kong Standards on Auditing (HKSAAs) or International Standards on Auditing (ISAs), where applicable.
  - (b) The auditor is not responsible for the preparation of the financial statements that give a true and fair view. This is the responsibility of those charged with governance.
  - (c) The auditor provides reasonable, not absolute, assurance that the financial statements taken as a whole are free from material misstatement.
  - (d) The objective of an audit of financial statements is to enable the auditor to express an opinion as to whether the financial statements give a true and fair view in accordance with the applicable financial reporting framework, such as Hong Kong Financial Reporting Standards (HKFRSs).
  - (e) The audit involves performing procedures to obtain audit evidence about amounts and disclosures in the financial statements.
  - (f) The auditor determines the procedures required to conduct an audit in accordance with HKSAAs, having regard to the requirements of these HKSAAs, the Ordinance and other legislation, if applicable, and the terms of the audit engagement, when appropriate.
  - (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 statements whether due to fraud or error. In making such risk assessments, the auditor considers internal control relevant to the company's preparation of the financial statements that give 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 company'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 structure, 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 statements, or other aspects of operations such as the adequacy of the company's systems of internal control or the selection of accounting policies.
  - (j) The purpose of communicating KAM in the auditor's report is to enhance the communicative value of the auditor's report by providing greater transparency about the audit that was performed. Communicating this information to intended users is to assist them in understanding those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period. Communicating key audit matters may also assist intended users in understanding the entity and areas of significant management judgement in the audited financial statements. The auditor may clarify that the KAM were addressed in the context of the audit of the financial statements as a whole, and in forming an opinion thereon, and the auditor does not provide a separate opinion on these matters.

- (k) The auditor may make reference to the wording in the auditor's report where the auditor has clarified to whom the auditor is responsible (with reference to Professional Risk Management Bulletin No. 2 — Auditor's Duty of Care To Third Parties and The Audit Report). Notwithstanding any answers the auditor gives or statements the auditor makes, the auditor shall not have any liability, responsibility or duty of care towards any individual members or third parties.
  - (l) The auditor's responsibility under HKSA 720 (Revised), *The Auditor's Responsibilities Relating to Other Information* is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or the auditor's knowledge obtained in the audit, or otherwise appears to be materially misstated. The auditor's responsibilities under HKSA 720 (Revised), do not constitute an assurance engagement on other information or impose an obligation on the auditor to obtain assurance about the other information.
23. The auditor agrees with the company at the AGM planning stage the approach for conveying the information set out in paragraph 22 above e.g. orally at the AGM itself, or providing written information to be circulated together with the Notice of Meeting to members before the AGM.
24. In addition, the auditor explains at the outset to an AGM or before members ask any questions that they may not be able to answer questions that are outside the context explained and the auditor may refer questions to others at an AGM for this reason.

## RESPONSES TO QUESTIONS

25. 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 statements 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 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 27–49 below discuss a number of factors which the auditor takes into account when considering responses to questions.
26. The auditor ensures that his/her responses to questions asked are reflected correctly and completely in the minutes of the AGM.

### The Conduct of the Audit

- (i) *Audit Approach and Audit Plan*
27. HKSA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Hong Kong Standards on Auditing* requires the auditor to plan and perform an audit by exercising professional judgement and with an attitude of professional skepticism recognising that circumstances may exist that cause the financial statements to be materially misstated.
28. In accordance with HKSA 300 *Planning an Audit of Financial Statements*, 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, company 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 HKSA 315 (Revised 2016) *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* and HKSA 330 *The Auditor's Responses to Assessed Risks*.



29. It is possible that members may not be familiar with the relevant statutory requirements governing an audit of financial statements. Responses to questions at an AGM provide an opportunity to inform members of the requirements mandated by HKSAs, relevant requirements of the Ordinance and the professional and ethical standards<sup>4</sup> governing auditors. It provides further opportunity to explain that adherence to HKSAs and professional ethics promote quality in the audit process and commitment to due care.

(ii) *Audit Procedures*

30. Questions which relate to specific audit procedures and/or in relation to specific parts of the financial statements are addressed by reference to the fact that the auditor's report relates to the financial statements taken as a whole. 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 set of financial statements. Further discussion of particular procedures (other than those described in KAM) could be misleading. Further guidance is provided in paragraphs 40 to 42 in relation to answering questions on KAM.

31. The auditor may find it useful to refer also to the *Preface to Hong Kong Standards on Quality Control, Auditing, Review, Other Assurance and Related Services*, which sets out how these standards are to be understood, interpreted and applied, to explain that HKSAs contain mandatory requirements relating to the planning, conduct and reporting of an audit. Each HKSA 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.

(iii) *Internal Control*

32. The auditor ensures that responses given in respect of questions on internal control are provided within the context of the financial statement audit. An audit of financial statements conducted in accordance with HKSAs 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. To obtain evidence on which to base an opinion on internal control would require the application of audit procedures beyond the scope of an audit of financial statements.

33. 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 statements has no responsibility under HKSAs to understand and evaluate the internal control structure beyond that level sufficient for the planning and development of an effective audit approach unless there is specific statutory, regulatory or additional contractual requirement to the contrary. Questions regarding internal control are to be addressed to those charged with governance who are responsible for ensuring that an adequate internal control structure exists. (See also paragraph 22g) above.)

(iv) *Fraud*

34. The auditor responds to question about fraud with reference to HKSA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*.

35. The auditor explains that according to HKSA 240<sup>5</sup>, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the company and management. An auditor conducting an audit in accordance with HKSAs is responsible for obtaining reasonable assurance that the financial statements taken as a whole are free from material misstatement, whether caused by fraud or error. Owing to the inherent limitations of an audit, there is an unavoidable risk that some material misstatements of the

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<sup>4</sup> See Hong Kong Code of Ethics for Professional Accountants issued by the HKICPA.

<sup>5</sup> HKSA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*, paragraphs 2 to 5.

financial statements may not be detected, even though the audit is properly planned and performed in accordance with HKSAAs.

36. The distinguishing factor between fraud and error is whether the underlying action that results in the misstatement of the financial statements is intentional or unintentional. Although fraud is a broad legal concept, for the purposes of the HKSAAs, the auditor is concerned with fraud that causes a material misstatement in the financial statements. Two types of intentional misstatements are relevant to the auditor – misstatements resulting from fraudulent financial reporting and misstatements resulting from misappropriation of assets. Although the auditor may suspect or, in rare cases, identify the occurrence of fraud, the auditor does not make legal determinations of whether fraud has actually been perpetrated. The auditor is required to bring any such matters to the attention of management and/or those charged with governance in accordance with HKSA 240, and as such, questions regarding fraud are to be addressed to those charged with governance.

## **The Preparation and Content of the Auditor's Report**

### *(i) Report on the Audit of the Financial Statements*

37. The auditor responds to questions about the auditor's report by referring to the auditor's report included with the financial statements. Where necessary, the auditor explains the meaning of the terms used in the auditor's report.
38. The audit provides assurance on the financial statements taken as a whole. Hence individual items are audited within the framework of materiality appropriate to the financial statements 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 HKSAAs. The auditor may conclude by referring the question to the chair.
39. 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 statements as a whole.
40. When responding to questions on the nature and determination of KAM, the auditor should explain to the members the nature of KAM in accordance with HKSA 701<sup>6</sup>. For example, KAM are:
- Those matters that, in the auditor's professional judgement, were of most significance in the audit of the financial statements of the current period. (Ref: HKSA 701, paragraph 8)
  - Selected from matters communicated with those charged with governance. (Ref: HKSA 701, paragraph 8)
  - Addressed in the context of the audit of the financial statements as a whole, and in forming the auditor's opinion thereon, and the auditor does not provide a separate opinion on these matters. (Ref: HKSA 701, paragraph 11(b))
41. The description of a KAM in the auditor's report is intended to provide insight as to why the matter was determined to be a KAM. It may be difficult to summarise the procedures performed in a succinct way that adequately communicates the nature and extent of the auditor's response to the assessed risk of material misstatement, and the significant auditor judgments involved. Nonetheless, the auditor may consider it necessary to describe certain

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<sup>6</sup> HKSA 701, *Communicating Key Audit Matters in the Independent Auditor's Report* is effective for audits of financial statements for periods ended on or after 15 December 2016. For audits of complete sets of general purpose financial statements of listed entities, the auditor shall communicate key audit matters in the auditor's report in accordance with HKSA 701.

procedures performed to communicate how the matter was addressed in the audit. Such description would typically be at a high level, rather than include a detailed description of procedures. If the auditor has provided a brief overview of procedures performed in the description of a KAM, the auditor is not expected to provide further details about the procedures in addition to those already disclosed in the auditor's report for that specific KAM.

42. In responding to questions about specific conclusions of a KAM, or questions relating to the auditor's response or approach relevant to the matter or specific to the assessed risk of material misstatement, procedures performed, outcome of the audit procedures or observations with respect to the matter, which was included as part of the description of a KAM in accordance with paragraph A46 of HKSA 701, the auditor should state clearly the auditor's responsibility is to opine on the financial statements as a whole. There is guidance in paragraph A47 of HKSA 701 which explains that the language used in the description of KAM "does not imply that the matter has not been appropriately resolved by the auditor in forming the opinion on the financial statements" and "does not contain or imply discrete opinions on separate elements of the financial statements". These principles also provide relevant considerations for the auditor when answering questions in an AGM.
43. In some cases, the auditor may include separate section(s) or statement(s) in the auditor's report in accordance with applicable HKSAs on matters such as:
- (a) Material uncertainty related to going concern - if the auditor has included a "Material Uncertainty Related to Going Concern" section in the auditor's report in accordance with HKSA 570 (Revised), *Going Concern*, the auditor may expect to be asked questions about that material uncertainty. The auditor should refer to the note in the financial statements that discloses the matter and state that the events or conditions indicate that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern and that the auditor's opinion is not modified in respect of the matter. If further information regarding the material uncertainty is required, it may be more appropriate for the auditor to refer the question to the chair.
  - (b) Emphasis of Matter – if the auditor has included an Emphasis of Matter section in the auditor's report in accordance with HKSA 706 (Revised), *Emphasis of Matter Paragraphs and Other Matter Paragraphs in the Independent Auditor's Report*, the auditor may expect to be asked questions about that matter. The auditor should refer to the relevant note disclosed in the financial statements and state that the auditor's opinion is not modified as a result of the matter and the matter has not been determined to be a key audit matter to be communicated in the auditor's report. If further information regarding the issue giving rise to the inclusion of the emphasis of matter paragraph is required, it may be more appropriate for the auditor to refer the question to the chair.
  - (c) Other Matter – if the auditor has included an Other Matter section in the auditor's report in accordance with HKSA 706 (Revised), the auditor may expect to be asked questions about that matter. The auditor should state that the matter has not been determined to be a key audit matter to be communicated in the auditor's report.
  - (d) Uncorrected material misstatement of the other information - if the auditor has included a statement in the "Other Information" section of the auditor's report that there is an uncorrected material misstatement of the other information, the auditor may expect to be asked questions about that uncorrected material misstatement. The auditor is reminded that the opinion on the financial statements does not cover the other information and the auditor does not express any form of assurance conclusion thereon. If further information regarding the uncorrected material misstatement is required, it may be more appropriate for the auditor to refer the question to the chair.

(ii) *Report on Other Legal and Regulatory Requirements*

44. 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 statements.
45. When the audit is conducted pursuant to the Ordinance, section 406(2) requires the auditor to state in the auditor's report if the auditor is of the opinion that the information in a directors' report is not consistent with the financial statements. The auditor may also bring that opinion to the members' attention at a general meeting.
46. In addition, sections 407(2) and 407(3) also require the auditor to report if the auditor is of the opinion that adequate accounting records have not been kept or if the auditor fails to obtain all the information and explanations which are necessary for the purpose of the audit. Section 407(4) requires that if the financial statements do not comply with section 383(1), the auditor must include in the auditor's report, so far as the auditor is reasonably able to do so, a statement giving the particulars that are required to be, but have not been, contained in the financial statements. 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.
47. The auditor responds to questions relating to these other matters by reference to the auditor's report.

**The Accounting Policies Adopted by the Company in relation to the Preparation of the Financial Statements**

48. Members may request the auditor to comment on accounting policies adopted by the company. The auditor would advise that the selection of accounting policies is the responsibility of management or those charged with governance, therefore the auditor responds to the question by stating that the policies comply, or do not comply, with HKFRSs with reference to the basis of preparation as stated in the notes to the financial statements. The management or those charged with governance may wish to comment on the appropriateness of the choice of accounting policies within those choices permitted by HKFRSs.

**Auditor Independence**

49. The auditor responds to questions about auditor independence with reference to the Hong Kong Standard on Quality Control (HKSQC)<sup>7</sup>, HKSA's and relevant ethical requirements<sup>4</sup>.

**MODIFICATION TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT**

50. 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. The auditor is reminded that HKSA 705 (Revised) *Modifications to the Opinion in the Independent Auditor's Report* requires that the auditor's report includes all relevant information to explain matters that result in a modified auditor's report.
51. If members have questions on the content of the auditor's report in respect of the modification, the auditor should be prepared to explain the issues leading to that modification.
52. 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 to assist in providing the response.

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<sup>7</sup> See HKSQC 1 relating to the requirements for auditor independence.

## **AUDIT FILES**

53. 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 AGM.

## **AUDITOR'S REPRESENTATIVE AT THE AGM**

54. On those occasions when the auditor is not able to attend an AGM and questions for the auditor have been identified, the auditor arranges for a representative<sup>1</sup> 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**

55. 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 company's management, makes alternative arrangements, as appropriate, to communicate the information to the members. This may include posting the response on the company's website as soon as practicable after the AGM.

## **WRITTEN QUESTIONS TO THE AUDITOR BEFORE THE AGM**

56. Paragraphs 56 to 61 are relevant if a company has in place arrangements for members to submit written questions to the auditor before the AGM. The auditor obtains the protocol for such arrangements when planning for the AGM.
57. The auditor and the company mutually agree on the time line by which a shareholder may submit written questions to the auditor before the AGM.
58. The company is expected to 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 paragraph 5 above.
59. The auditor would normally prepare, and give to the company, a list of the questions that the company has passed on to the auditor which the auditor considers to be relevant to the matters specified in paragraph 5 above. This would normally be done as soon as practicable after the end of the time for submitting questions and a reasonable time before the AGM.
60. The company would normally, at or before the start of the AGM, make copies of the question list available to the members attending the AGM.
61. The auditor may be permitted to table a written answer to a written question submitted to the auditor and the company should make that written answer available to members as soon as practicable after the AGM.

## APPENDIX

### Examples of Possible Questions Asked in an Annual General Meeting and Comments on the Auditor's Response

*The comments on the questions cited below are more detailed than the responses that may be required, and are intended as general guidance about matters an auditor would normally consider in determining a response. The comments are not intended as illustrations of the answer that would be appropriate in every situation.*

The following are a number of questions to which an auditor is usually able to respond, with comments as to the response that might be appropriate.

<b>Question 1</b>	<b>Were there any limitations imposed upon the scope of your audit by management?</b>
Response considerations	In most cases, the scope of the audit will normally enable the auditor to express an opinion without reservation on the financial statements. If there was any limitation imposed on the scope of the audit, the matter would be dealt with in the auditor's report.
<b>Question 2</b>	<b>As the auditor of the company, did you consider yourself sufficiently independent of the company to perform an adequate audit?</b>
Response considerations	The auditor would have complied with the Code of Ethics for Professional Accountants (the "Code") issued by the Hong Kong Institute of Certified Public Accountants. The auditor would advise that the auditor has performed procedures to ensure compliance with the independence requirements as set out in the Code.
<b>Question 3</b>	<b>Discuss your relationship with the management. Have you had any disagreements with management that have not been resolved to your satisfaction?</b>
Response considerations	Generally the auditor would be in a position to state that management was cooperative, and provided all of the information and explanations that the auditor required. The auditor may choose to point out that in the course of normal communications with the management, the auditor frequently meets with management to discuss emerging accounting issues, and has always been able to resolve the issues with senior management satisfactorily. The auditor may also discuss the role of the audit committee. If there are any disagreements with management that have not been resolved to the auditor's satisfaction, the auditor would have included a reservation in the auditor's report.
<b>Question 4</b>	<b>Did you perform any non-audit services during the year?</b>
Response considerations	The auditor would advise whether or not non-audit services were provided during the period. The auditor could also make reference to the disclosure note included in the annual reports as there is a requirement under paragraph 2(h) of Section M of the revised Code "Corporate governance report" to the Listing Rules to disclose an analysis of auditor's remuneration in respect of both audit and non-audit services in the corporate governance report.