

Audit of Listed Companies

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SAP 25 supersedes the SAP of the same title in June 2004. No substantive changes have been made to the original approved text and all cross references have been updated, as appropriate .

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Introduction

1. The purpose of this statement is to provide guidance to auditors in respect of the audit of listed enterprises. This statement is issued as a recommendation of best current practice and should be read in conjunction with Singapore Standards on Auditing (SSAs) and other related Statements of Auditing Practice (SAPs).
2. The recommendations contained in this statement are general in nature and deal with matters of principle and briefly summarise the requirements of certain SSAs.
3. SSAs are to be applied in the audit of financial statements of all enterprises including listed companies. SSAs are also to be applied, adapted as necessary, to the audit of other information and to related services. Although this statement highlights the requirements of certain SSAs, it is to be noted that all SSAs are to be applied in the audit of listed companies.
4. SSAs contain basic principles and essential procedures (identified in bold type black lettering) together with related guidance in the form of explanatory and other material. The basic principles and essential procedures are to be interpreted in the context of the explanatory and other material that provide guidance for their application.
5. To understand and apply the basic principles and essential procedures together with the related guidance, it is necessary to consider the whole text of the SSA including explanatory and other material contained in the SSA not just that text which is bold lettered.
6. Any limitation of the applicability of a specific SSA is made clear in the introductory paragraphs to that SSA.
7. SSAs do not override the local regulations governing the audit of financial or other information. To the extent that SSAs conform with local regulations on a particular subject, the audit of financial or other information in accordance with local regulations will automatically comply with the SSA regarding that subject.
8. It is impractical to establish standards on auditing and related services which universally apply to all situations and circumstances an auditor may encounter. Therefore auditors should consider the adopted standards as the basic principles which they should follow in performing their work. The precise procedures required to apply these standards are left to the professional judgement of the individual auditor and will depend on the circumstances of each case.

Definitions

9. In this Statement, unless the contrary intention appears, the terms have meanings as follows:

<i>Annual report</i>	A document issued by an entity which includes its financial statements together with the audit report thereon.
<i>Audit report</i>	A report prepared by an approved company auditor containing a clear written expression of opinion on the financial statements as a whole.

<i>Auditor</i>	Has the same meaning as an "approved company auditor" in the Companies Act, viz. "approved company auditor" means a person approved as such by the Minister whose approval has not been revoked and in relation to a corporation, not being a company, includes a person qualified to act as auditor of the corporation under the law of the place in which the corporation is incorporated.
<i>Financial statements</i>	The balance sheets, income statements, cash flow statements, statements of changes in equity, notes and other statements and explanatory material which are identified as being part of the financial statements.
<i>Incoming auditor</i>	A current period's auditor who did not audit the prior period's financial statements.
<i>Predecessor auditor</i>	An auditor who was previously the auditor of a company and who has been replaced by an incoming auditor.
<i>Summary financial statements</i>	Financial statements summarising an entity's annual audited financial statements for the purpose of informing user groups interested only in the highlights of the entity's financial performance and position.

Legal and Regulatory Compliance

10. It is management's responsibility to ensure that the entity's operations are conducted in accordance with the prevailing laws and regulations. The responsibility for the prevention and detection of non-compliance rests with management. The auditor, on the other hand, whilst not, and cannot be held responsible for preventing non-compliance, should plan and perform the audit with an attitude of professional scepticism recognising that the audit may reveal conditions or events that would lead to questioning whether an entity is complying with the laws and regulations. Some of the laws and regulations that need to be considered include the Securities and Futures Act, Companies Act, Banking Act, Insurance Act and the Singapore Exchange Securities Trading ("SGX-ST") Listing Manual.

Auditors' Responsibilities in Communicating with Audit Committees

11. Audit committees are an important element of corporate governance of listed companies. They provide a means for non-executive directors, operating as a committee of the board of directors, to appraise and monitor key issues of financial reporting, internal controls and corporate governance and, when appropriate, to challenge management's approach, whilst at the same time respecting the role of the board of directors.
12. Against this background, good communication between the auditors and audit committees is vital to enable the audit committees to function effectively. This SAP sets out guidelines on communications between auditors and audit committees so as to assist the development of working practices of both audit committees and auditors.

The Nature of Communication Between Audit Committees and Auditors

13. Effective communication requires a two-way process. Auditors ought to seek to provide the audit committee with relevant information in a way that helps committee members understand the issues concerned. Similarly, auditors ought to receive from the audit committee both specific feedback on the matters they raise and information about the committee's views on the entity's corporate governance, so that they are aware of, and can take account of, any concerns felt by the audit committee.
14. In addition, the audit committee is itself an important element of the entity's control environment and governance arrangements for which, as directors, its members share responsibility with the other directors. Accordingly, the quality of oversight exercised by an

entity's audit committee is an important factor taken into account by auditors in their assessment of the company's overall control environment and the way in which this may affect audit risk.

Understanding the Audit Committee Role

15. An audit committee's role can be expected to include:
 - (a) appraising and, where appropriate, challenging the actions and judgements of management as they relate to the financial reporting process;
 - (b) monitoring management's commitment to the establishment and maintenance of a satisfactory control environment and a sound system of internal control (including any arrangements for internal audit); and
 - (c) considering the adequacy of arrangements for external audit, and supporting the independence and objectivity of the external auditors by:
 - (i) understanding the focus of the audit;
 - (ii) facilitating discussion of audit findings;
 - (iii) helping to resolve any differences in views, between management and the auditors;
 - (iv) reviewing the nature and extent of non-audit services; and
 - (v) making recommendations in respect of the appointment of auditors.
16. The management of an entity is responsible for providing its audit committee members with information needed for the committee's work. Whilst an audit committee's members need to have knowledge of the financial aspects of corporate governance as well as commitment to challenge, when necessary, the actions and judgements of management, as non-executives, they depend upon management for information concerning the entity.

Designing Communication to Complement the Audit Committee Role

17. External auditors should seek to communicate with audit committees in a way which assists audit committee members to fulfil their functions effectively (both as determined by the committee's term of reference and more broadly as non-executive directors), whilst also fulfilling their own statutory and professional obligations. This aim affects communication with audit committees in a number of ways:
 - (a) auditors communicate with the audit committee in a way that takes account of the information made available to the committee by management, whilst ensuring that all relevant matters arising from the audit are fully and openly discussed. In particular, they should not allow themselves to be influenced by any desire on the part of management to play down sensitive issues discovered in the course of audit work;
 - (b) all significant issues discovered by auditors ought to be brought to the attention of the audit committee. Issues identified by auditors in the course of their work are normally reported to senior management and the executive directors so that appropriate action can be taken. Reports to the audit committee are likely to be of greatest value if they permit the committee's members to form a view on the overall adequacy of the management's response to matters identified by the audit process; and
 - (c) although audit committees have a responsibility for reporting to the board, communication with an audit committee should not be presumed always to discharge fully the auditors' obligation to report matters to the board as a whole. Auditing Standards set out a number of requirements concerning communications with an entity's board of directors, and auditors need to ensure that such matters are appropriately reported. In circumstances of a serious nature, auditors may consider it appropriate to communicate matters directly to the full board.

Timing of Communication

18. The timing of communication inevitably depends upon the timing of the audit committee's meetings, although this should not preclude communication at any time when requested by the auditors or by the audit committee. However, in most circumstances communication would be expected to occur:
 - (a) when determining the plans for conducting the audit; and
 - (b) when assessing findings from the audit, preferably before the directors give approval for publication of financial information which has been subject to audit or review by the auditors - for example, issue of a listed company's financial statement announcement.
19. The manner of communication takes account of the audit committee's role and its method of operation. Normally, effective communication is achieved by an oral report by the auditors to the committee, supported by a brief written report, followed by discussion. This provides the audit committee with the opportunity to evaluate the auditors' findings and report back to the full board.

Communicating Plans for Conducting the Audit

20. In order to ensure that effective two-way communication is established, it is vital that both the auditors' plans and the audit committee's expectations are discussed and agreed at an early stage in the audit process.
21. At the planning stage, the auditors should outline the nature and scope of the work they propose to undertake and the form of the reports they expect to make. In addition to the audit of financial statements for the year, the auditors may be instructed to review interim financial information or, if the entity undertakes regulated activities, its regulator may require reports from the auditors. In such cases the auditors should also discuss the scope of review or other additional reporting with the audit committee.
22. The auditors should also highlight to the audit committee the application of any new developments in law, accounting and auditing standards, corporate governance reporting, the SGX-ST Listing Manual and other developments relevant to the company's financial statements and annual report.

Communicating Findings from the Audit

23. At or near completion of the audit, the auditors should provide feedback to the audit committee on the conduct of their work and matters arising therefrom, reporting on whether their work followed the plan previously communicated, any material deviations from that plan and reasons for such changes. They may also comment on whether earlier recommendations on internal control issues arising from the audit process have been implemented by management. Any difficulties encountered in performing the audit, such as unreasonable delays in the provision of information to the auditors, or significant shortcomings in the quality of the information provided, should also be reported.
24. The auditors should communicate factual findings to the audit committee on any suspicion of fraud as soon as practicable even if the potential effect on the financial statements would be immaterial or if fraud or significant error is found to exist.
25. Auditors should determine the extent of information arising from the audit to be communicated to the audit committee taking into account:
 - (a) the committee's terms of reference;
 - (b) the information it expects to be provided by the auditors, or has requested them to provide;
 - (c) the nature of issues identified in the course of the auditors' work; and
 - (d) the requirements of Auditing Standards.
26. The form of commentary provided by the auditors also takes into account the scope and form of the explanations and commentary already provided by management to the audit committee. The auditors usually discuss their proposed report with management (including executive

directors as appropriate) and take account of their views before presenting their report to the audit committee. However, the auditors should not allow themselves to be swayed by any desire on the part of management to play down sensitive issues. The auditors must report openly and fully to the audit committee.

27. The audit committee may also find additional matters helpful, such as:
- (a) discussion of the accounting policies applied by the entity, any changes in these accounting policies and a commentary on the overall degree of prudence consequent upon those policies;
 - (b) discussion of the extent to which the financial statements are affected by any unusual transactions including non-recurring profits and losses recognised during the period and the extent to which such transactions are separately disclosed in the financial statements;
 - (c) commentary on the overall transparency, clarity and quality of the annual report; and
 - (d) discussion of any significant operational and business risks identified during the audit and their likely impact on the future development of the entity, together with any material contingent liabilities.

Auditors' Responsibilities in Assessing Internal Accounting Controls

28. The audit committee should review with the internal and external auditors their findings on their evaluation of the listed issuer's system of internal controls. The review would assist the board of directors in developing policies that would enhance the controls and operating systems of the listed issuer.
29. Where a statement is included in the annual report on corporate governance processes and activities in relation to the controls and operating systems of the listed issuer, auditors are not expected to provide assurance that the statement is free from misstatements or inconsistencies. This is because whilst the auditors may obtain audit evidence through tests of controls, due to the test nature and other inherent limitations of an audit, taking into account the inherent limitations of any accounting and internal control system, the auditors are not in a position to form an opinion on the overall effectiveness of the controls and operating systems of the company based purely on the audit process. The responsibility for the accuracy of the disclosures made in relation to the controls and operating systems vests with the board of directors.

Auditors' Responsibilities in Reporting Fraud and Error

30. SSA 240, "The Auditor's Responsibility to consider Fraud and Error in an Audit of Financial Statements", provides guidance on the auditors' responsibility to consider fraud and error in an audit of financial statements.
31. The responsibility for the prevention and detection of fraud and error rests with management through the implementation and continued operation of adequate accounting and internal control systems.
32. The auditors are not and cannot be held responsible for the prevention of fraud and error. Nevertheless, when planning and performing the audit and in evaluating and reporting the results thereof the auditors should consider the risk of material misstatements in the financial statements resulting from fraud and error. The auditors should also consider the reporting of fraud and error to appropriate parties in accordance with SSA 240, "The Auditor's Responsibility to consider Fraud and Error in an Audit of Financial Statements".
33. Section 207(9A) of the Companies Act requires that if an auditor of a public company or a subsidiary of a public company, in the course of performance of his duties as an auditor, has reason to believe that a serious offence involving fraud or dishonesty amounting to not less than \$20,000 and punishable by imprisonment for a term not less than 2 years is being or has been committed against the company by officers or employees of the company, the auditor shall immediately report the matter to the Minister of Finance.

34. In carrying out this statutory responsibility, apart from the procedures set out in SSA 240, the following procedures may be considered in the design of the audit procedures to obtain reasonable assurance that misstatements arising from fraud and error that are material to the financial statements taken as a whole are detected and communicated on a timely basis:
- (a) issuing instructions to the auditors of the subsidiary companies of the listed company to immediately bring to the attention of the auditors of the listed company any serious offence involving fraud or dishonesty as defined in the Companies Act, noted in the course of their audit; and
 - (b) obtaining written confirmation from the directors whether they are aware of any irregularities, including fraud, or other dishonesty, involving management or employees of the company and the group.

Audit of Segment Information

35. The audit of segment information should be directed at ascertaining whether reportable segments are correctly identified and segment disclosures are complete and accurate.
36. Consistent with the management's approach to segment reporting, auditing procedures are primarily directed at:
- (a) obtaining sufficient competent evidential matter to support conclusions that the segment information disclosed is the same information that is used by management;
 - (b) ensuring that the basis on which the information was prepared is the basis disclosed and that the disclosures are adequate;
 - (c) ensuring that aggregation criteria have been appropriately applied, if applicable; and
 - (d) ensuring that all significant segment items are reconciled to consolidated totals in the financial statements.

Audit Procedures

Test Identification of Reportable Segments

37. Audit procedures would include the following
- (a) gain or update an understanding of management's internal reporting and processes relating to accounting for segment disclosures; and
 - (b) evaluate whether the entity has appropriately identified its reportable operating segments.

Test Segment Disclosure Information

38. Audit procedures would include the following:
- (a) perform analytical procedures;
 - (b) evaluate the adequacy of disclosures;
 - (c) review the reconciliation of the totals of segment revenues, reported profit or loss, assets, and other significant items to the consolidated balance sheet and profit and loss account to assess whether significant items are properly disclosed; and
 - (d) if the composition of an entity's reportable segments changes as a result of an entity's reorganisation of its internal structure, assess whether segment information for prior periods has been appropriately restated, if practicable.

Audit of Employee Share Option Schemes

39. These are schemes involving the issue of shares by listed issuers to their employees (and by unlisted subsidiaries of a listed issuer) and are governed by requirements set out in the SGX-ST Listing Manual and the Companies Act (section 77). The regulatory requirements are generally quite restrictive so as to safeguard the interests of the listed company's shareholders.
40. Listed companies are required to disclose information on the following matters in their annual reports as set out in Rule 852 of the SGX-ST Listing Manual:
- (a) Details of options granted to and exercised by:
 - (i) Directors of the listed company;
 - (ii) Controlling shareholders of the listed company and their associates; and
 - (iii) Employees who receive 5% or more of the total options available under the scheme.
 - (b) Details of options granted to parent and group employees.
 - (c) Names of the members of the committee administering the scheme.
41. Share options granted by a company are required to be disclosed in the directors' report under section 201 of the Companies Act. Hence, in practice, disclosures of employee share option schemes could be disclosed in the directors' report. There are presently no guidelines or rules under the Singapore Financial Reporting Standards covering the recognition, measurement and disclosure of employee stock option schemes.

Audit Procedures

42. As the auditors' report includes an opinion as to whether the financial statements comply with the other matters required by Section 201 of the Companies Act, the audit procedures on share options would include the following:
- (a) evaluation of the adequacy of disclosures of share options granted as set out in section 201 of the Companies Act;
 - (b) review of the company's employee stock option scheme plan and schedules prepared by the company to assess the completeness and accuracy of disclosures; and
 - (c) obtaining confirmation from directors and employees on details of options granted and exercised.

Auditors' Responsibilities in the Review of Interested Person Transactions

43. It is the responsibility of the management and directors of the company to identify and monitor interested person transactions and ensuring that such transactions are approved by the shareholders and/or are immediately announced, as applicable.
44. The SGX-ST Listing Manual defines an interested person transaction as a transaction between an entity at risk and an interested person. An entity at risk is a listed issuer, a listed issuer's subsidiary, which is not listed on the SGX or an approved exchange or a listed issuer's associated company subject to criteria specified in Chapter 9. An interested person is defined as a director, chief executive officer, or controlling shareholder of the listed issuer or an associate of any such director, chief executive officer, or controlling shareholder. A transaction includes the provision of financial assistance, the acquisition, disposal or leasing of assets, the provision or receipt of services, the issuance or subscription of securities, the granting or receiving of options and the establishment of joint ventures or joint investments.
45. Interested person transactions may have an impact on the disclosures in the financial statements. For example, certain interested person transactions may be considered as related party transactions requiring disclosures. The auditors should review announcements made on

interested person transactions and records maintained by the company documenting interested person transactions to assess the adequacy of disclosures in the financial statements. This is because inconsistencies between interested person transaction announcements and the financial statements may undermine the credibility of the financial statements and the related auditors' report.

Auditors' Responsibilities on Corporate Governance Disclosures

46. The board of directors is responsible for the corporate governance of the company. Annual reports should provide sufficient disclosure of the listed issuers' corporate governance processes and activities.
47. The auditors are not expected to actively search for misstatements or inconsistencies in the disclosures. The responsibility for the accuracy of the disclosures made rests with the board of directors. However, if the auditors become aware of misstatements or inconsistencies in the review of the annual report vis-à-vis their knowledge obtained in the course of the audit of the financial statements, they should highlight these matters to the board of directors and the audit committee.

Review of Annual Report/Summary Financial Statements

48. In addition to the financial statements, other information contained in annual reports would include the following:
 - (i) Chairman's statement;
 - (ii) Corporate information;
 - (iii) Financial summaries or highlights;
 - (iv) Statement on corporate governance; and
 - (v) Directors' report.
49. SSA 720, "Other Information in Documents Containing Audited Financial Statements", requires the auditor to read the other information to identify material inconsistencies with the audited financial statements. This is because the credibility of the financial statements and the related auditors' report may be undermined by inconsistencies between the financial statements and the other information, or by misstatements within the other information.
50. When auditors read the other information in the annual report, they do so in the light of their knowledge acquired during the audit. As set out in SSA 720 paragraph 10, the auditors' responsibility is restricted to information identified in the auditors' report, and the auditors are not expected to verify any other information. What is required is for the auditors (persons who can reasonably be expected to be aware of the more important matters arising from the audit and to have a general understanding of the entity's affairs), to read the other information with a view to identifying significant misstatements therein or matters which are inconsistent with the financial statements.
51. The entity may prepare summary financial statements summarising its annual audited financial statements for the purpose of informing user groups interested only in the highlights only of the entity's financial performance and position and as permitted by the Companies Act. Section 203A of the Companies Act allows a listed public company to send summary financial statements to its members.
52. The SGX-ST Listing Manual sets out the following requirements in Rule 713:
 - (a) disclosure in the annual report of a listed company, the date of appointment and the name of audit partner in charge of auditing the listed company and its group; and
 - (b) rotation of audit partner in charge of the audit of the listed company at least once every five years.

The listed company must also disclose in its annual report, the names of the auditors for its Singapore-incorporated subsidiaries and Singapore-incorporated associates and its significant foreign subsidiaries and associated companies.

Review of Financial Statements and Dividend Announcement

53. Both the content and the preparation of public announcements are the responsibility of the company's directors. Whilst the responsibility rests with the directors of the company, the directors may request the auditors to review the announcements.

Interim Financial Statements and Dividend Announcement

Review Procedures

54. The procedures that may be carried out by the auditors in relation to a review of interim public announcements are set out in SAP 11, "Review of Interim Financial Information". In addition to procedures set out in SAP 11, the following procedures may be carried out:
- (a) considering whether the financial information is prepared on the basis of accounting policies and presentation consistent with those used in the preparation of the preceding annual accounts;
 - (b) considering whether the classification and presentation of disclosures is appropriate and in accordance with SGX requirements; and
 - (c) reading the interim announcement including the management commentary for any apparent misstatements and material inconsistencies with the financial information.

Full Year Financial Statements and Dividend Announcement

Review procedures

55. The following are procedures that may be carried out by the auditors if requested by management in relation to a review of the public announcements:
- (a) checking that the figures in the preliminary announcement covering the full year have been accurately extracted from the audited or draft financial statements; and reflect the presentation to be adopted in the audited financial statements;
 - (b) reading the management commentary, any other narrative disclosures and any final interim period figures and consider whether they are in conflict with the information that they have obtained in the course of their audit. If they become aware of any apparent inconsistencies with information obtained during their audit or with the draft financial statements, they should seek to resolve them with the directors; and
 - (c) if they are available, auditors may also read the text, or draft thereof, of any Chairman's Statement, financial highlights or similar document to be included in the annual report from which the commentary in the preliminary announcement will usually be derived.
56. The auditors would need to be satisfied that any matters outstanding with respect to their audit will be unlikely to result in changes to the financial information contained in the public announcement. This means that the audit of the financial statements must be at an advanced stage and that, subject only to unforeseen events, the auditors expect to be in a position to issue their report on the financial statements incorporating the figures upon which the public announcement is based.
57. This means completing the audit, including appropriate reviews by personnel not otherwise involved in the audit as described in paragraph 17 of SSA 220, "Quality Control for Audit Work", subject to the following:
- (a) resolving outstanding audit matters which the auditors are satisfied are unlikely to have a material impact on the financial statements or disclosures in the public announcement;

- (b) completing audit procedures on details of note disclosures supporting the financial statements that will not have a material impact on the primary financial statements and completing their review of the other information in the annual report in accordance SSA 720, "Other Information in Documents Containing Audited Financial Statements"; and
 - (c) updating the subsequent events review to cover the period between the issue of the public announcement and the date of the auditors' report on the financial statements. Significant findings uncovered at this stage should be addressed in accordance with the guidelines set out in SSA 560, "Subsequent Events".
58. Where the auditors' report will be qualified or will contain an explanatory paragraph dealing with a fundamental uncertainty, the auditors should highlight to the audit committee to consider the adequacy of disclosures made in the public announcement explaining the qualification or fundamental uncertainty.

Auditors' Responsibility in the Review of Shareholders Circulars

59. Generally, a responsibility statement by the directors of the company is included in a shareholders' circular. In the statement, the directors of the company accept full responsibility for the accuracy of the information in the circular and confirm, having made all reasonable enquiries, that it is to the best of their knowledge and belief, the facts stated and opinions expressed in the circular are fair and accurate and that there are no material facts the omission of which would make any statement in the circular misleading.
60. Whilst the responsibility for the accuracy of the information in the circular rest with the directors, the directors may make enquiries of the auditors of the company regarding the information in the circular. The directors of the company may also require the auditors to formally report on the results of work performed on the circular. In other circumstances, the auditors may be providing oral advice only.

Formal Reports

61. The auditors' professional responsibilities and the format of written reports should be based on SSA 920, "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information".

Oral Advice

62. The audit engagement letter should include a clause to the effect that the auditors cannot be held responsible for opinions or advice unless confirmed in writing after full and proper consideration.
63. Where the area of advice is not covered by an existing engagement contract with such relevant clause, the auditors should use appropriate judgement in responding to any request for advice and make clear to the directors of the company the basis on which that advice is given. It will often be prudent to confirm any response in writing, making clear the basis on which it was given.
64. If there is a reasonable likelihood that the professional advice or views provided to the directors of the company could be misinterpreted or otherwise utilised in an unanticipated manner, a written representation of such information should be provided.

Auditors' Responsibilities in Communicating with Shareholders at Annual General Meetings

65. While the entity's directors are accountable for all aspects of the business, the scope of the auditors' responsibilities are clearly defined by the Companies' Act and SSAs. Past research indicates that many users of financial reports are not familiar with the scope of an audit.

Therefore, without due consideration of the nature of queries to be raised by shareholders, there is the risk that questions may be directed to the auditors on matters that should be addressed by the entity's directors.

66. The auditors prepare an independent report on the results of the audit to the members of the entity. The SSAs require that auditors plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement. However, the auditors' 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 system of internal control.
67. The auditors should have regard to their legal responsibilities, which relate to the role of auditors. Therefore, the auditors are not able to provide an appropriate response to questions dealing with issues beyond the scope of the audit mandate and/or questions relating to matters that are the responsibility of the directors. The auditors should therefore decline answering such questions. However, the auditors should be willing to accept and respond to questions which are within the scope of the auditors' report.