

# **ICSA Shareholder Questions and the AGM**

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# Preface

*Shareholder Questions and the AGM* has been written in order to assist directors and company secretaries with their AGM preparation. In Part 1, Chapter 1 summarises the statutory and regulatory requirements relating to AGMs, and Chapter 2 looks at elements of the annual report laid before members at the AGM. All references to section numbers refer to sections of the Companies Act 1985 unless otherwise stated.

Much of the material in Part 1 is based heavily upon the ISCA's existing guidance and I thank the authors of that guidance for their contribution.

Part 2, which consists only of Chapter 3, suggests questions that shareholders are likely to ask and allows directors and management of public listed companies to plan and develop informed responses. This chapter contains examples of questions that might be asked, based on topical issues arising and questions asked at AGMs in recent years. These questions aim to give broad guidelines as to possible areas of shareholders' concerns. However, the industry or environment in which the company operates will also greatly influence the nature of questions raised by shareholders. Consequently, the list is not exhaustive and should be seen only as a guide.

Furthermore, there will inevitably be queries regarding the specific companies and the disclosures made in a particular set of financial statements. Directors should ensure that they fully understand the financial statements, what items relate to, why they have arisen, how they are accounted for and why they have fluctuated, in order to address questions appropriately.

Finally, I would like to thank Sarah Ray and Nicola Collins, without whose efforts this book could not have been produced.

**Timothy Copnell**

Director, Audit Committee Institute  
Sponsored by KPMG LLP (UK)



# About the Audit Committee Institute

Recognising the importance of audit committees, the Audit Committee Institute (ACI) has been created to serve audit committee members and help them to adapt to their changing role. Historically, audit committees have largely been left on their own to keep pace with rapidly changing information related to governance, audit issues, accounting and financial reporting. Sponsored by KPMG LLP (UK), the ACI provides knowledge to audit committee members and a resource to which they can turn for information or to share knowledge.

The ACI's primary objective is to communicate with audit committee members and enhance their awareness, commitment and ability to implement effective audit committee processes.

For more information on the work of the ACI, please visit our website at [www.kpmg.co.uk/aci](http://www.kpmg.co.uk/aci).



# Introduction

The Cadbury Report<sup>1</sup> summarised the relationship between the board of a company and the company's shareholders as follows:

- The shareholders, as owners of the company, elect the directors to run the business on their behalf, and hold them accountable for its progress and development.
- The directors report to the shareholders on their stewardship of the company and its assets.
- The shareholders appoint external auditors to provide an independent check on the company's financial statements.

Although this report was written over 14 years ago it sets out succinctly the key components of the relationship between the company's board and shareholders. What is clear – especially at a time in which business is heavily regulated by the Government and scrutinised by the media – is that effective communication by the company board is key to maintaining a constructive relationship with shareholders. This book will focus on two of the most important forms of shareholder communication: the annual general meeting (AGM) and the annual report.

The AGM provides a platform on which shareholders can engage in active dialogue with the board of directors. The main purposes of an AGM are for the directors to report on the performance of the company, for the members to question the directors about the company and their conduct of its affairs, and for members to vote on resolutions that have to be put before the meeting.

The annual report plays a primary role in providing shareholders the opportunity to assess the stewardship of the directors and, of course, it has direct

<sup>1</sup> Report of the Committee on the Financial Aspects of Corporate Governance: The Code of Best Practice (1992), Cadbury Committee on the Financial Aspects of Corporate Governance.

links to the AGM because it provides the context in which shareholders can consider and vote on the proposals recommended by the directors for their approval. This book looks at the areas of the annual report which are of particular interest to shareholders in their preparation for attending the AGM and voting on proposals.

Chapter 3 consists of shareholders' questions. Information about the company is not restricted to the annual report. Today shareholders can obtain industry and government trends and indices, and in some cases business strategies through a variety of media sources and the internet. Shareholders also have ready access to, and are influenced by, reports from institutional investors, corporate governance organisations, special interest groups and the media. Shareholders today are better informed and are more motivated to participate in AGMs than ever before. Chapter 3 has been written to assist directors in their preparation for the company's AGM and suggests questions that shareholders may ask. The questions are not restricted to the qualitative nature of the annual report, although there is no doubt that questions will concern the financial statements.

The questions have been divided into the following sections: external influences on business; company structures and operations; management plans and strategies; financial reporting and audit; and governance and shareholder communications. The questions are by no way definitive but aim to serve as a prompt to readers to ask themselves: could this be asked at my company AGM? Has this issue arisen during the year? The next step for readers is to ensure that they equip themselves with sufficient information prior to the AGM in order to be able to answer any questions accurately and to the satisfaction of the enquirer.

As this book is published, the Companies Act 2006 has just received royal assent. However, it is not expected to come into force until late 2007 or even 2008. Consequently this book refers to the law current at the time of writing, the Companies Act 1985. Where relevant major changes which will result from the Companies Act 2006 are referred to throughout this book.