

# Audit Quality Perceptions Research

May 2019

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# Background

The FMA commissioned Buzz Channel to conduct research to help understand how users of audit services in New Zealand perceive the auditors' contribution to fair, efficient and transparent NZ financial markets.

This is the first time the FMA has conducted audit quality research, and therefore provides a baseline measure of confidence, trust, professionalism, and perceived quality of the audit process, and the perceived benefits from a users' perspective.

The overall aim of this research is to inform FMA of public and industry perceptions of the audit quality in NZ and enable them to target work to increase understanding of the auditor's role, strengthen perceived value of that role, along with knowledge of the FMA's role of oversight and regulation of auditors.

An online survey was distributed via email to audit industry stakeholders, and professional and retail investors who use audit services - either directly or indirectly.

A total of n=357 people took part in the research, between 28 November and 14 December 2018.

- n=203 Investors
  - n=193 individual / retail investors who invest in NZ businesses e.g. through the NZX or as a private equity investor
  - n=10 investment managers or institutional investors, such as fund managers, investment brokers or managers
- n=56 Directors (n=41) or ARC members (n=15)
- n=36 Managers (of FMC licensed entity or issuer)
- N=62 Auditors

# Summary

## Perceptions of audit quality in New Zealand

### QUALITY

#### Investor Perceptions

Just under half of investors agreed the *quality of **auditors*** in NZ is of a high standard (48%) and 14% disagreed. 38% of investors felt either neutral (24%) or unsure (14%) about the quality of auditors.

A higher proportion of investors (53%) were either neutral (24%) or unsure (29%) about the *quality of the **audit firm*** acting on their behalf. Just under four in ten (38%) agreed the quality of the audit firm is of a high standard, and a small proportion of 9% disagreed. The main reasons provided by investors disagreeing the quality of auditors and/or audit firms in NZ are of a high standard include the belief that auditors are not independent from the entities they audit, recent cases of audited businesses failing, and/or their own experience with audit firms.

#### Directors/ARC Perceptions

Directors and audit risk committee members have much stronger opinions than investors about the quality of auditors and the audit firms acting on their behalf.

Well over half agreed that the quality of the auditor (57%) or audit firm (59%) acting on behalf of their business is of a high standard. However, a similar proportion to investors disagreed on these factors, and reasons provided also align with the comments made by investors.

#### Auditor Perceptions

The most important factor auditors feel contribute to audit quality in their firm is the *culture*. Auditors believe a good culture in the audit firm drives consistency, long term results and a higher overall quality of work. Next most mentioned by auditors as contributing factors to audit quality in their firm is the *expertise of the audit team*, and *amount of senior staff time* spent on the audit. Auditors believe expertise, skill and knowledge are key to audit quality, and therefore senior staff need to be involved. Some auditors mentioned the complexities of audits and/or that staff need to be held accountable for the audit.

When considering the entity being audited, auditors rate the *quality of the financial reporting* of the entity as the most important factor influencing audit quality. Auditors commented that good financial information assists with audit quality and compliance. Other important factors include *full and timely access to information*, and an *open and constructive relationship*. Auditors commented that a good relationship reiterates the culture of the entity and allows auditors to be able to work more effectively. Some auditors mentioned the *quality of the audit committee* as being important, commenting that the tone and quality comes from the top and filters down through the entity.

# Summary

## Perceptions of audit quality in New Zealand

### RELIABILITY AND CLARITY OF AUDITED INFORMATION:

#### **Investor Perceptions**

69% of investors agree that audited information *provides more reliable information* than unaudited information. Of the small proportion who disagreed (9%), the main reasons given include raw information provided being accepted by auditors without question or further investigation / verification.

Audited financial statements are considered *clear and easy to understand* by just under half of investors (46%), while 23% disagree. The main reason for not agreeing is the complexity of the financial data. It was suggested it's written for accountants, and (an easy to understand) summary of relevant points would be helpful.

#### **Directors/ARC Perceptions**

Directors and audit risk committee members indicate significantly higher agreement than investors that audited information is *more reliable than unaudited information* with 82% agreeing, and a similar low proportion of 7% disagreeing.

Director/ARC perceptions of the audited information being *clear and easy to understand* are very similar to investor views, with similar ratings (50% agree, 21% disagree), and similar comments made by those not agreeing, i.e. complexity and technical data.

# Summary

## Perceptions of audit quality in New Zealand

### TRUST:

#### **Investor Perceptions**

Just over half of investors agreed they trust the audit profession in NZ to *act with ethics and integrity* (56%) and 18% disagreed. Around a quarter were either neutral (20%) or didn't have an opinion (6%).

Among those who disagreed, the main factors influencing trust in the audit profession to act ethically include perceptions that auditors will accept an auditing job even though there is a conflict of interest (due to financial motivation to get the business), awareness of recent cases where audited businesses failed, and instances of breaches of ethics. Also mentioned by a few was a lack of general trust in the audit profession.

#### **Directors/ARC Perceptions**

Trust in the audit profession in NZ is significantly higher among directors/ARC than investors, with 68% agreeing, and only 9% disagreeing. The small proportion disagreeing made similar comments to investors relating to instances of conflicts of interest, and scepticism about independence of auditors from the entities they are auditing.

#### **Auditor Perceptions**

Virtually all auditors agreed they trust the audit profession to *act with ethics and integrity* (98%). 2% gave a neutral rating.

# Summary

## Perceptions of audit quality in New Zealand

### COMPETITION AND CHOICE:

#### **Investor Perceptions**

A third of investors agreed there is *sufficient competition and choice* when selecting an auditor/audit firm (33%), and a quarter disagreed (24%). The main comment made by those not agreeing is that there is a limited pool, with the four or five big audit firms mentioned. Some investors talked about it being rare for businesses to change auditors leading to a close relationship over time. Also mentioned by a few is that for larger companies only the big audit firms would have the competence and resource to conduct the audit, and a few mentioned that New Zealand is a small market so there is limited expertise in some sectors.

#### **Directors/ARC Perceptions**

In comparison to investors, two thirds of directors/ARC agree there is *sufficient competition and choice* (64%) and only 9% disagreed. Comments from those disagreeing are similar to investor views, relating to the dominance of a small number of big audit firms.

#### **Auditor Perceptions**

Almost all auditors agreed there is *sufficient competition and choice* (92%). The small number of auditors who disagreed (N=4, 6%) mentioned the limited pool of audit firms in NZ.

# Summary

## Perceptions of audit quality in New Zealand

### INDEPENDENCE AND PROFESSIONAL SCEPTICISM:

#### Investor Perceptions

Less than half of investors agreed that auditors are *sufficiently independent from the entities they audit* (45%), and around a third agreed they show *sufficient professional scepticism* when auditing financial statements (35%), and/or *challenge the judgement of the management and directors* of the entities they audit (34%).

Conversely around a quarter of investors disagreed that auditors are sufficiently independent from, show sufficient scepticism, and/or challenge the judgement of management and directors of the entities they audit. The reasons given include the auditor/audit firm forming close relationships with the entities they audit and therefore insufficient separation to be independent, and that the entity pays the fees indicating a potential conflict of interest. Also mentioned is the perception that auditors don't conduct in-depth investigation and tend to accept the information the entity they are auditing provides them, without question.

#### Directors/ARC Perceptions

Director/ARC views of the independence and professional scepticism of auditors is very different to investors, with 71% of agreeing auditors are *sufficiently independent* and two thirds agreeing they *show professional scepticism* (66%).

Just over half of directors/ARC agreed auditors *challenge their judgement* (54% compared with 34% of investors).

Directors/ARC were also asked if they agree their **audit firm demonstrates sufficient independence and objectivity**, 59% agreed and 11% disagreed. Comments made by those who disagreed are similar to views of investors.

#### Auditor Perceptions

In contrast to view of investors and directors/ARC almost all auditors agree auditors are *sufficiently independent from the entities they audit* (94% agree, 73% **strongly** agree). Only 5% of auditors disagreed, giving their reasons as some auditors being too close to the entity (not enough separation) and/or being motivated by fees and keeping the contract.



# Summary

## Perceptions of audit quality in New Zealand

### OVERSIGHT AND REGULATION OF LICENSED AUDITORS:

#### **Investor Perceptions**

Around a third of investors agree there is *sufficient oversight and regulation* of licensed auditors in NZ (32%), and 20% disagree.

Just under half of investors didn't have a strong opinion about this, with a quarter feeling neutral (24%) and a quarter unsure (24%).

The top two reasons investors don't agree there is sufficient oversight and effective regulation of licensed auditors is generally feeling there isn't enough regulation in place and/or that there needs to be greater transparency and monitoring of auditor engagement.

#### **Directors/ARC Perceptions**

Agreement that there is *sufficient oversight and regulation* of licensed auditors is higher among directors/ARC (than investors) with half agreeing (50%) and 13% disagreeing. Those who disagree indicated a lack of awareness of the regulation that applies to individual auditors and/or would like to see a more thorough regulated approach to licensing.

#### **Auditor Perceptions**

Almost all of the auditors agree there is *sufficient oversight and effective regulation of licensed auditors* (95%).

# Summary

## Perceptions of audit quality in New Zealand

### VALUE PERCEPTIONS:

#### **Investor Perceptions**

A slightly higher proportion of Investors disagree (22%) than agree (19%) that they get *good value from the fees the audit firm charges*. A third of investors were neutral (34%) and a quarter were unsure (25%) about the value they receive.

The main factor driving a negative perception of value is a general feeling that the audit fees are too high. Some investors talked about an audit being a compliance process and value being difficult to gauge.

#### **Directors/ARC Perceptions**

Directors/ARC are significantly more likely than investors to agree they *get good value from the fees charged* by their audit firm (39% agree compared with 19% of investors).

However, a similar proportion to investors disagree (23%), with similar opinions that the fees are too high and/or it being a compliance cost rather than something they get value from.

# Summary

## Perceptions of audit quality in New Zealand

### SELECTING AN AUDITOR / AUDIT FIRM:

#### Investors

Three quarters of investors indicated they either sometimes (44%) or always (31%) *check the identity of the auditor* when reviewing the financial statements of their investments.

The top three factors investors feel directors and audit risk committees should consider when selecting an audit firm to act on their behalf are:

- **Confidence in the independence of the audit firm** - separation between the two parties to eliminate any potential bias.
- **Providing assurance to directors in instances where auditors detect non-compliance** - ensuring non-compliance issues are detected and reported on, and financial risks are identified and highlighted for action. Some investors mentioned that auditor independence is needed to enable this to happen.
- **Sector expertise** – investors consider industry knowledge and specialist skills to be important. A few commented that this helps non-compliance issues and financial risks to easily be identified and industry standards maintained.

#### Directors/ARC

In contrast to investors, directors/ARC rate sector experience and professional reputation as the two top factors they consider when selecting an auditor. Directors believe industry knowledge gives better insight, and a strong reputation ensures the auditor/audit firm has the expertise and experience to do the job.

Next most considered is providing reassurance to directors, price, and confidence in their independence.

#### Auditors

The top factor auditors believe influence the decision of directors/ARC when choosing an auditor is price, followed by industry experience and reputation (which aligns with director/ARC responses):

- Sector expertise - auditors believe directors want auditors that understand their business and therefore will often select auditors they have an existing relationship with
- Professional reputation – auditors believe directors consider a demonstrated professional reputation and a level of trust is key the quality of the audit.

# Summary

## Perceptions of audit quality in New Zealand

### PERCEIVED VALUE OF THE FMA PUBLISHING QUALITY REVIEWS:

69% of investors, 64% of directors/ARC agree there is value in the FMA publishing summary information about the findings of quality reviews of individual registered audit firms. Both investors and directors/ARC believe it would provide greater transparency and/or confidence in decision making. Investors also mentioned it would make audit firms more accountable.

In contrast, only 27% of auditors agree there is value in the FMA publishing summary information. Reasons given by auditors who don't agree include believing samples are too small and it would therefore not be accurate, that it could lead to market dominance and because they see it as unnecessary.

# Investor Perceptions

## Investors (n=203)



**Investor:** *Individual/retail investor - someone who invests in NZ businesses e.g. through the NZX or as a private equity investor*



**Investor:** *Investment Manager or institutional investor e.g. fund manager, investment broker or manager*

# Investor perceptions of audit quality

To what extent to you agree or disagree with the following:

Audited information provides investors with more reliable information than unaudited information



I trust the audit profession in NZ to act with ethics and integrity



The quality of auditors in New Zealand is generally of a high standard



I find audited financial statements and information clear and easy to understand



Strongly disagree + disagree    Neither agree nor disagree    Strongly agree + agree    Don't know

Average rating\*

3.9

3.6

3.5

3.3

Looking at **investor perceptions of the audit profession in New Zealand**, investors were less likely to agree with **all** statements, except for 'I find audited financial statements and information clear and easy to understand', when compared to the other groups surveyed (directors, ARC, managers and auditors.).

69% of investors agree that audited information provides them with more reliable information than unaudited information. 56% mentioned they trust the audit profession to act with ethics and integrity, while just under half of the investors (48%) think the quality of auditors in New Zealand is generally of a high standard.

*\*Average rating: refers to the average between 1 and 5, where 1 is strongly disagree and 5 is strongly agree (excludes don't knows).*

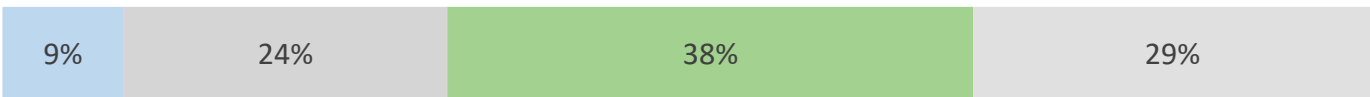
# Investor perceptions of audit quality

To what extent to you agree or disagree with the following:

Auditors are sufficiently independent from the entities they audit



The quality of the audit firm acting on your behalf, or on behalf of your business, is of a high standard



Auditors show sufficient professional scepticism when they are auditing financial statements



Auditors challenge the judgement of the management and directors of the entities they audit



Strongly disagree + disagree    Neither agree nor disagree    Strongly agree + agree    Don't know

Average rating

3.2

3.6

3.1

3.1

38% of investors agree that the quality of the audit firm acting on their behalf is of a high standard – however, considering that 29% weren't sure (indicating a lack of strong opinion), the average rating for this statement sits a little higher than others with the same agree proportion at 3.6.



# Investor perceptions of audit quality

To what extent to you agree or disagree with the following:

There is sufficient competition and choice when selecting an auditor/audit firm in NZ



There is sufficient oversight and effective regulation of licensed auditors in NZ



You get good value from the fees the audit firm charges



Strongly disagree + disagree    Neither agree nor disagree    Strongly agree + agree    Don't know

Average rating

3.1

3.1

2.9

A third of investors (33%) agree that there is sufficient competition and choice when selecting an auditor/audit from in New Zealand. Nearly the same amount (32%) agree that there is sufficient oversight and effective regulation of licensed auditors.

A lesser fifth (19%) of investors agree that they get good value from the fees the audit firm charges, while 22% disagree with the same statement. It's interesting to note that nearly six in ten were either neutral or weren't sure if they get good value from their fees, indicating a lack of strong opinion about the value from the audit fees charged.

Reasons for not agreeing ‘audited information provides investors with more reliable information than unaudited information’:

“Often the information provided to auditors is not verified and or auditors accept what the company tells them.”

“Events frequently show that auditors accept values that are soon after proven to be false.”

“Financial statements are responsibility of directors, rarely do the auditors not go along.”

“I’m not sure auditors are unbiased and trustworthy.”

“I sometimes wonder if auditors are more concerned with ticking boxes and following procedures, than actually viewing from a holistic point of view and understanding / knowing how correct the information is.”

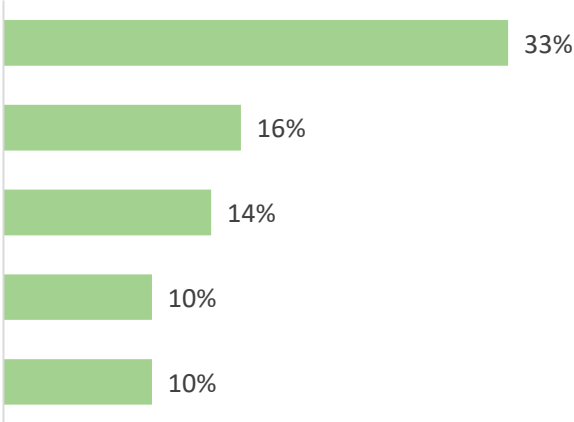
“Mainly because it is couched in obscure language and there is doubt over the independence of auditors.”

- Audited information is only as accurate as the raw data/information provided by the entity they are auditing
- Auditors follow procedures and the process is not flawless - limited scope/not case by case/lack of oversight
- Audit against accounting standards, and don't confirm the data sources are correct
- Depends - competence of auditor/independence from entity/influence of company being audited
- Lack of trust & confidence in the audit process/audited information

The main reason given by investors for not agreeing that audited information provides investors with more reliable information than unaudited information is that auditors accept the raw data/information provided by the entity without questioning.

Other reasons given include processes being followed that are limited in scope, and auditors not confirming that the sources of information are correct. Mentioned by a few is that the reliability of the audited information is dependent on factors such as the quality/competence of the auditor and independence from the entity being audited, and/or a general lack of trust and confidence in audit information/process.

Q: ‘You didn’t agree with the statement ‘Audited information provides investors with more reliable information than unaudited information’, are you able to tell us why that is?’ Base: n=51



\*12% were blank or didn’t know. All other responses were below 8%.

# Reasons for not agreeing with ‘I trust the audit profession in NZ to act with ethics and integrity’:

*“Fees are negotiated and paid by directors rather than an independent body. It is all too easy for ethics to disappear in order to get the fees in.”*

*“Too many surprises after annual reports or audited accounts prepared and audit companies not raised red flags as an auditor as they don't want to lose a client's business, refer Private Eye for examples.”*

*“Any conflict of interest must constitute a breach of ethics. Again the Government needs to much more clearly set out under what grounds auditors can or cannot undertake audits based on conflicts of interest (perceived or actual).”*

*“Experience of auditors. All those finance companies, all audited. All dead...”*

Dependant on company for future employ/ motivated by money/ conflict of interest/ same auditors due to their relationship with the...

Recent cases - audited businesses failing, named a company, no warning given

They do not act ethically/ instances of breaches/ need ruling body

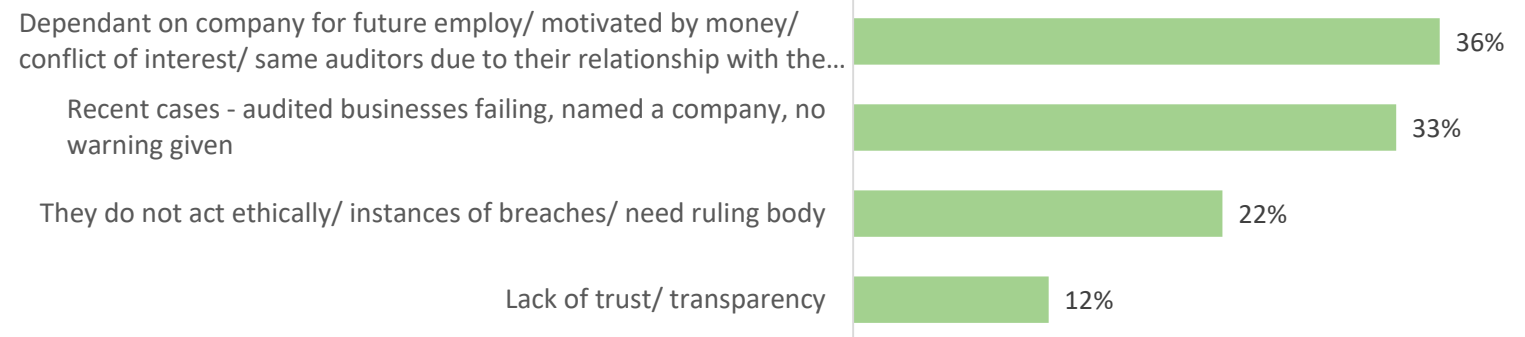
Lack of trust/ transparency

The main reason given by investors for not agreeing they trust the audit profession in NZ to act ethically is that auditors will accept an auditing job even though there is a conflict of interest, due to financial motivation to have the business. Recent cases were mentioned where audited businesses failed.

Also mentioned was a belief that auditors do not act ethnically, and that there have been instances of breaches of ethics.

Mentioned by a few is a lack of trust in the audit profession.

Q: ‘You didn’t agree with the statement ‘I trust the audit profession in NZ to act with ethics and integrity’, are you able to tell us why that is?’ Base: n=76



\*11% were blank. All other responses were below 5%.

Reasons for not agreeing with ‘the quality of auditors in New Zealand is generally of a high standard’:

*“If auditors were so good, why do so many businesses go down owing creditors while allowing owners to live a life of luxury.”*

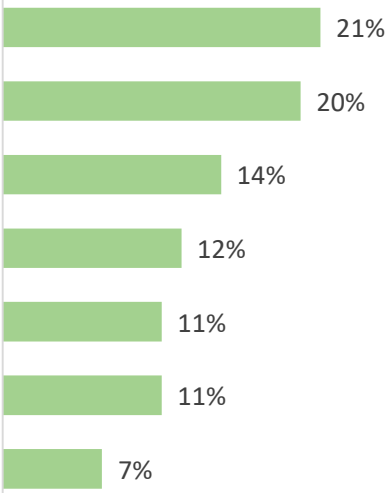
*“I believe the standard should be much higher than it generally is. Also that there are not enough measures in place to avoid conflicts of interest, not enough competition or performance oversight.”*

*“Nope look at the companies going broke or in trouble. Things hidden and not disclosed.”*

- Recent cases - audited businesses failing, named a company
- Auditors are not independent - of management, not given full disclosure, lack of transparency
- I have nothing to compare with/ not enough information
- Based on experience - mediocre quality, some are worse than others, inconsistent
- Too many mistakes are made/ lack of trust
- Perception/ anecdotal/ subjective
- Juniors have limited knowledge/ real world experience

The top two reasons given for not agreeing the quality of auditors in NZ is of a high standard are reference to recent cases of audited businesses failing, and feeling that auditors are not independent of the entities they audit.

Q: ‘You didn’t agree with the statement ‘The quality of auditors in New Zealand is generally of a high standard’, are you able to tell us why that is?’ Base: n=76



\*4% were blank. All other responses were below 4%.

Reasons for not agreeing with ‘I find audited financial statements and information clear and easy to understand’:

“Can be quite technical I think.”

“Much technical financial jargon is incorporated within the financial statements which may be necessary... but instead of wading through the technical data it would be good if a leading paragraph was able to summarize in a succinct manner as to whether all was good or whether there were issues in relations to the companies financial statements. From this summary one could then decide the necessity of then working through the more technical data.”

“I am an individual investor of limited financial understanding, so my problem in getting a clear assessment of auditor's reports may well be my problem rather than theirs.”

“Formal financial data presented too technical for lay person. A summary of relevant points would be helpful.”

“A number of times it appears to be written for accountants.”

Complex/ technical data - written for accountants, difficult to understand/ summary would be good

Reads like jargon

You need a financial education/ background to understand

More clarity is required

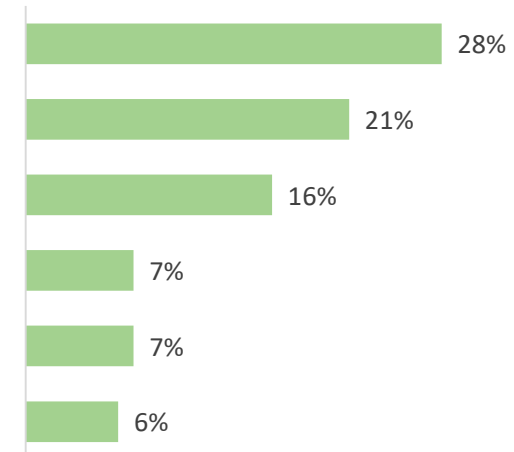
It's a trust issue/ too much scope for data to be fudged

There is no background information/ audit opinion too bland/ insufficient judgement

The main reason given by investors for not agreeing the audited financial statements and information clear and easy to understand is the complex, technical data included. Some mentioned ‘jargon’, and/or a need for understand financial data to be able to understand the audit information.

It was suggested by a couple of investors that a summary would be helpful.

Q: ‘You didn’t agree with the statement ‘I find audited financial statements and information clear and easy to understand’, are you able to tell us why that is?’ Base: n=98



\*8% were blank. All other responses were below 5%.

# Reasons for not agreeing with ‘auditors are sufficiently independent from the entities they audit’:

*“Auditors need to be independent body.”*

*“Auditors in New Zealand are often too close to the entities they are tasked with auditing. This is evident from recent board appointments from former auditors.”*

*“A regular relationship always muddies the waters of independence.”*

*“The nature of the relationship is a potential conflict of interest if they want to retain the contract with the entity they are auditing.”*

*“The auditors’ remuneration is fixed by the directors and it is the directors who effectively appoint them. It is not unusual, when the auditors raise issues in the course of an audit, for a gentle message to be given that the Board is not necessarily committed to that particular firm and that a change of auditor could well be considered. All this raises real questions of true independence.”*

Auditors too close to entity - haven't changed in years, not enough separation, they are not given full disclosure

Conflicts of interest/ paid by entity they audit/ want to keep the contract/ motivated by fees

Corporate NZ is too small/ not enough depth/ limited pool

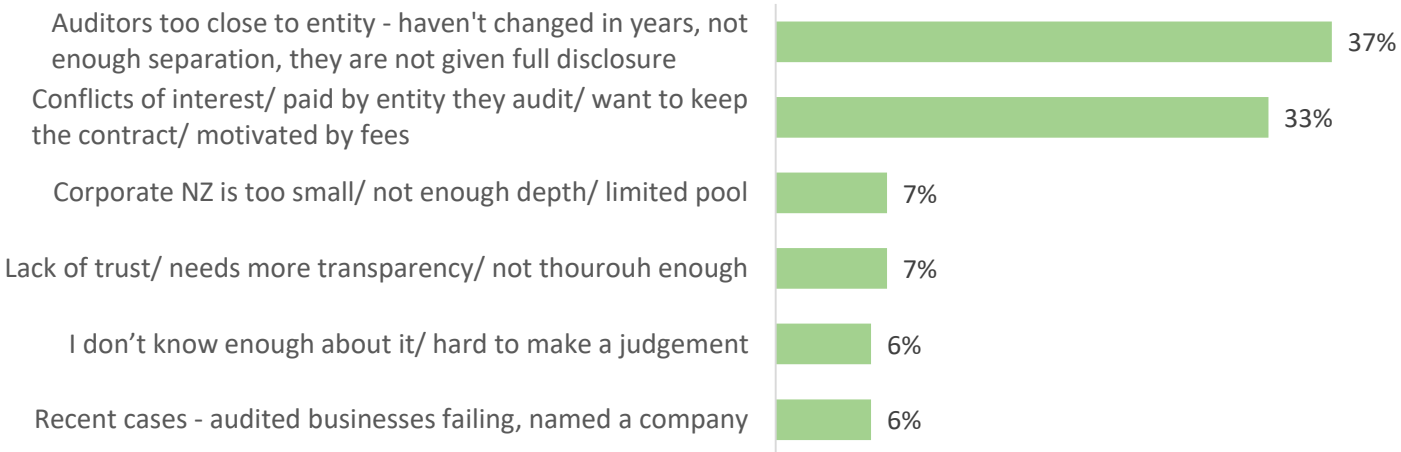
Lack of trust/ needs more transparency/ not thorough enough

I don't know enough about it/ hard to make a judgement

Recent cases - audited businesses failing, named a company

The main reasons given by investors for not agreeing auditors are sufficiently independent from the entities they audit are that they form close relationships with the entities they audit and therefore not enough separation for it to be independent, and that the fact the entity pays the fees indicating a potential conflict of interest.

Q: ‘You didn’t agree with the statement ‘Auditors are sufficiently independent from the entities they audit’, are you able to tell us why that is?’ Base: n=95



\*4% were blank. All other responses were below 5%.

Reasons for not agreeing with ‘the quality of the audit firm acting on your behalf, or on behalf of your business, is of a high standard’:

*“I don't believe they are of a high standard.”*

*“I'm a small investor in a number of companies. My overall impression is that auditors are too much in thrall to big companies and maybe the market as a whole to ask enough hard questions. Every balance sheet shows a sizeable sum paid to the company that audited the books.”*

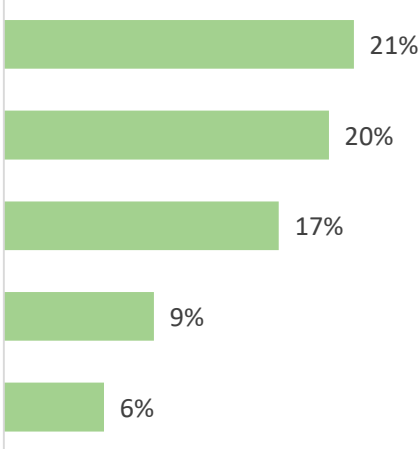
*“Some of the listed companies have obviously not made full information disclosure to the auditors, which they in turn have not asked sufficient questions to give full disclosure or accurate picture to shareholders.”*

*“In my experience.”*

- Auditors are not independent - of management, not given full disclosure, want to keep the contract, motivated by fees, conflict of...
- Based on experience - mediocre quality, juniors hired have limited knowledge
- I have nothing to compare with/ not enough information/ does not apply to me
- Too many mistakes are made/ lack of trust
- Auditors are too focused on accounting standards rather than fact/ too technical

The top two reasons for investors not agreeing the quality of the audit firm is of a high standard are the belief that auditors are not independent and/or their answer is based on their experience with audit firms.

Q: ‘You didn’t agree with the statement ‘The quality of the audit firm acting on behalf of your business is of a high standard’, are you able to tell us why that is?’ Base: n=66



\*11% were blank. All other responses were below 3%.

Reasons for not agreeing with ‘auditors show sufficient professional scepticism when they are auditing financial statements’:

*“I’ve seen little proof of this, other than the standard disclaimers, which cover their butts.”*

*“Performance and failures of many of the financial investment participants over many years to me indicates insufficient professional scepticism was applied and I therefore question whether this is a wider problem applicable to other industries.”*

*“A number of firms/companies have reached the point of bankruptcy or receivership at a very late stage, when for instance sub-contractors have not been paid for months. If an audit was of any practical use, this should not happen.”*

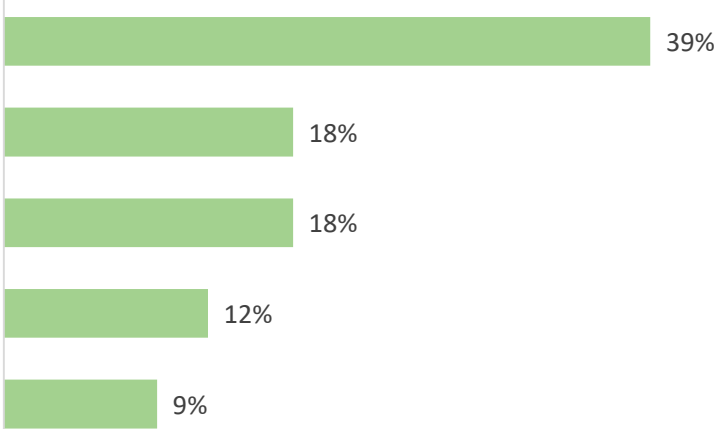
*“With occasional company failures/financial difficulties it would seem that some auditors don’t dig deeply enough.”*

*“They do show scepticism that is often overridden by not upsetting the customer.”*

The main reason given by investors for not agreeing auditors show sufficient professional scepticism is the perception there is a lack of in-depth investigation undertaken by the auditor.

Q: ‘You didn’t agree with the statement ‘Auditors show sufficient professional scepticism when they are auditing financial statements’, are you able to tell us why that is?’ Base: n=97

- Lack of in-depth investigation by auditor - I dont think they show enough professional scepticism, compliance exercise
- Recent cases - audited businesses failing, named a company/ lack of trust
- Auditors are not independent - of management, not given full disclosure
- Dependant on company for future employ/ motivated by money
- Based on experience



\*8% were blank. All other responses were below 7%.



# Reasons for not agreeing with ‘auditors challenge the judgement of the management and directors of the entities they audit’:

*“Auditors are not asking the hard questions of their customers, nor being sufficiently questioning overall.”*

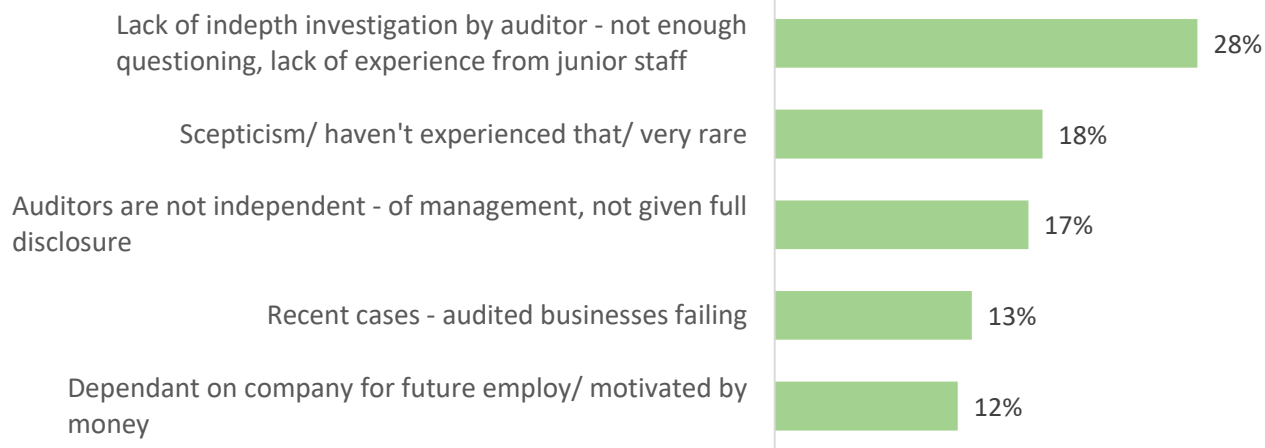
*I do not see enough challenging or questioning "why" of the status quo, i.e. Fletcher Building.”*

*“I don't recall many audits that questioned the judgement of directors or management.”*

*“Experience. At the accounting judgement level, it depends on the relationship, and on the checking transaction sampling and systems level, the new graduates don't know what they are doing.”*

The general perception of investors not agreeing that auditors challenge the management and directors of the entities they audit, is again the perception there is a lack of questioning of directors or management and/or in-depth investigation done by auditors.

Q: ‘You didn’t agree with the statement ‘Auditors challenge the judgement of the management and directors of the entities they audit’, are you able to tell us why that is?’ Base: n=107



\*4% were blank. All other responses were below 8%.

Reasons for not agreeing with ‘there is sufficient competition and choice when selecting an auditor/audit firm in NZ’:

*“A very small range/number of auditors is available... and there are not enough specialised auditors in various fields, e.g. construction.”*

*“For bigger companies the national chains are the only firms big enough to staff an audit.”*

*“Because it is like an old boys club. The four or five large auditing firms control the market.”*

*“I accept there is choice but I am not sure auditors work in a really competitive environment. It seems to me that it is fairly rare for a company to change auditors.”*

Limited pool of auditing firms - Big 4, no competition, only few firms are competent to audit listed companies

Old boys network is prevalent/ too close to firms they work with

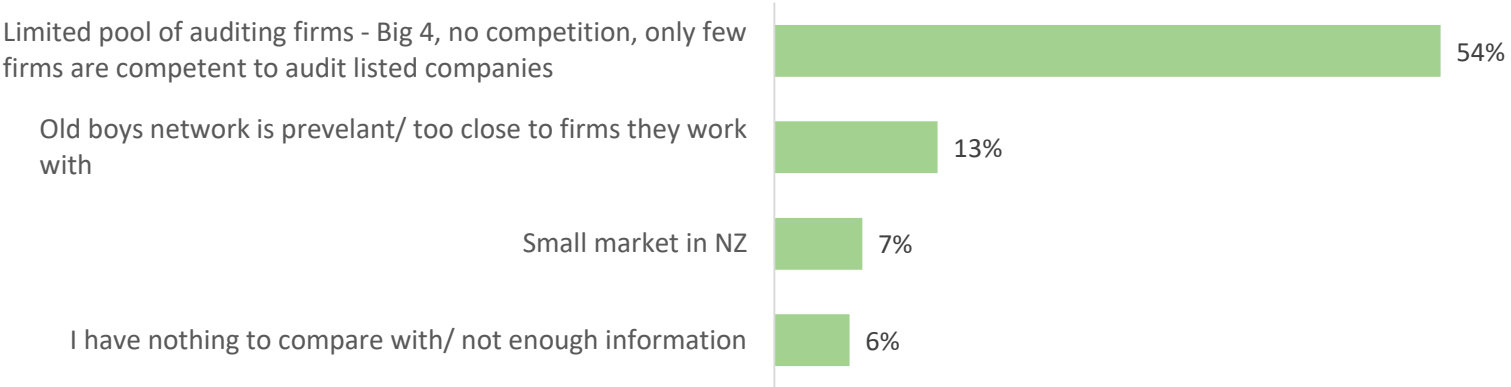
Small market in NZ

I have nothing to compare with/ not enough information

Over half of the investors not agreeing that there is sufficient competition and choice when selecting an auditor mentioned there is only a small number of firms to choose from.

Some investors mentioned and old boys network exists, with a few large firms and many interconnections with businesses.

Q: ‘You didn’t agree with the statement ‘There is sufficient competition and choice when selecting an auditor/audit firm in NZ’, are you able to tell us why that is?’ Base: n=98



\*8% were blank. All other responses were below 4%.

# Reasons for not agreeing with 'there is sufficient oversight and effective regulation of licensed auditors in NZ':

*"It appears that there is not sufficient regulation in place for licensed auditors in NZ. A license is only a registration and not an indication or insurance of quality."*

*"I think the FMA should investigate and make sure the mistakes of the past are limited to not happen again."*

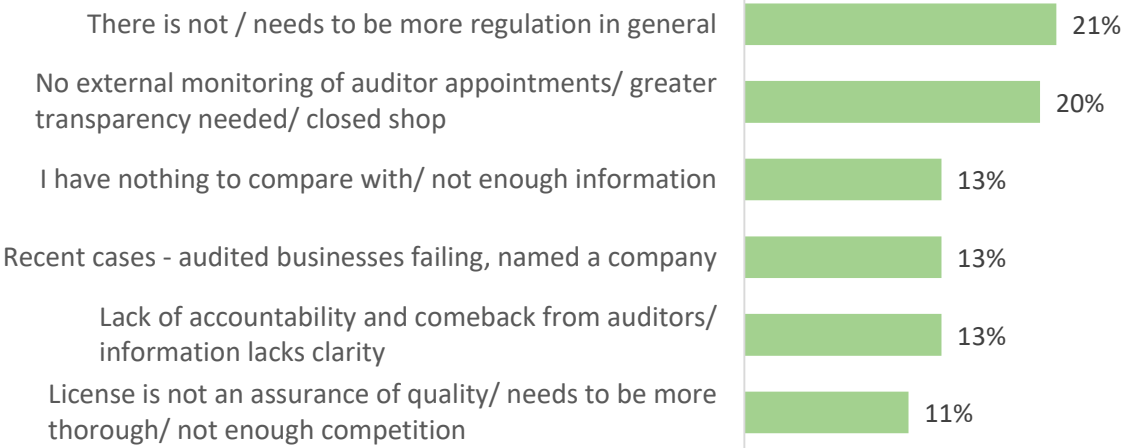
*"The commerce commission was very slack in the past so companies got away with things. The FMA has made many improvements. When companies are found out breaking the law like the recent Australian banks, the fines haven't met the crime. Some should go to jail where it is serious."*

*"Need more regulation regarding "conflict of interest."*

*"Need strong licensing and oversight."*

The top two reasons investors don't agree there is sufficient oversight and effective regulation of licensed auditors is generally thinking there isn't enough regulation in place and/or there needs to be greater transparency and monitoring of auditor engagement.

Q: 'You didn't agree with the statement 'There is sufficient oversight and effective regulation of licensed auditors in NZ', are you able to tell us why that is?' Base: n=90



\*11% were blank. All other responses were below 6%.

# Reasons for not agreeing with 'you get good value from the fees the audit firm charges':

*"I am amazed at the fees charged to big companies when the audit scope or materiality is then set at 5% of NPAT."*

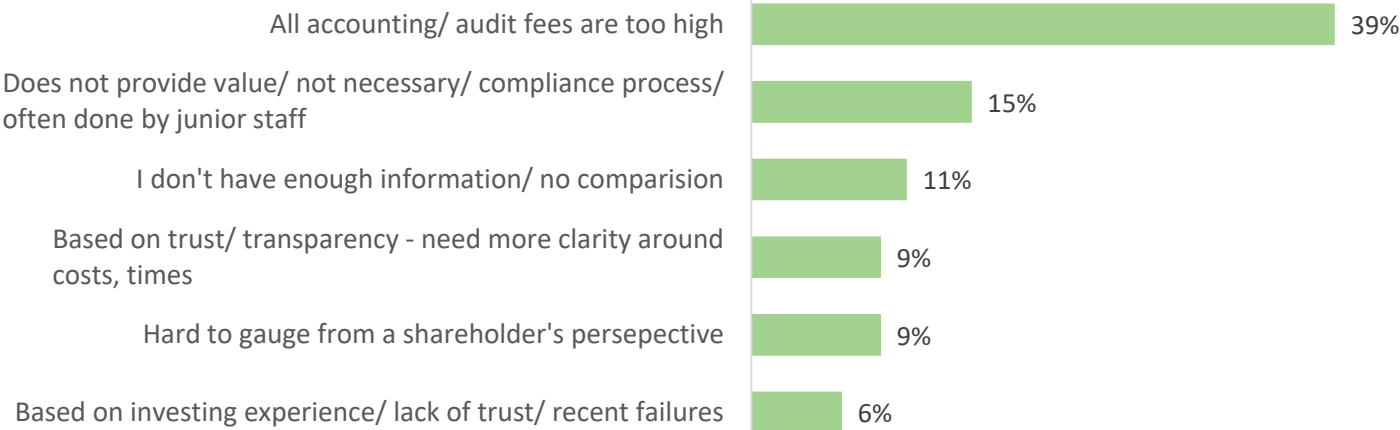
*"Not sure the audit provides value so any fees are wasted money."*

*"When you are not getting an honest report for the auditors any charge is not good value."*

*"Just believe audit fees are expensive and with the ever increasing regulatory requirements around audit requirements the cost will continue to escalate."*

The main reason given by investors for not agreeing they get good value from the audit fees charged is the perception the fees are too high.

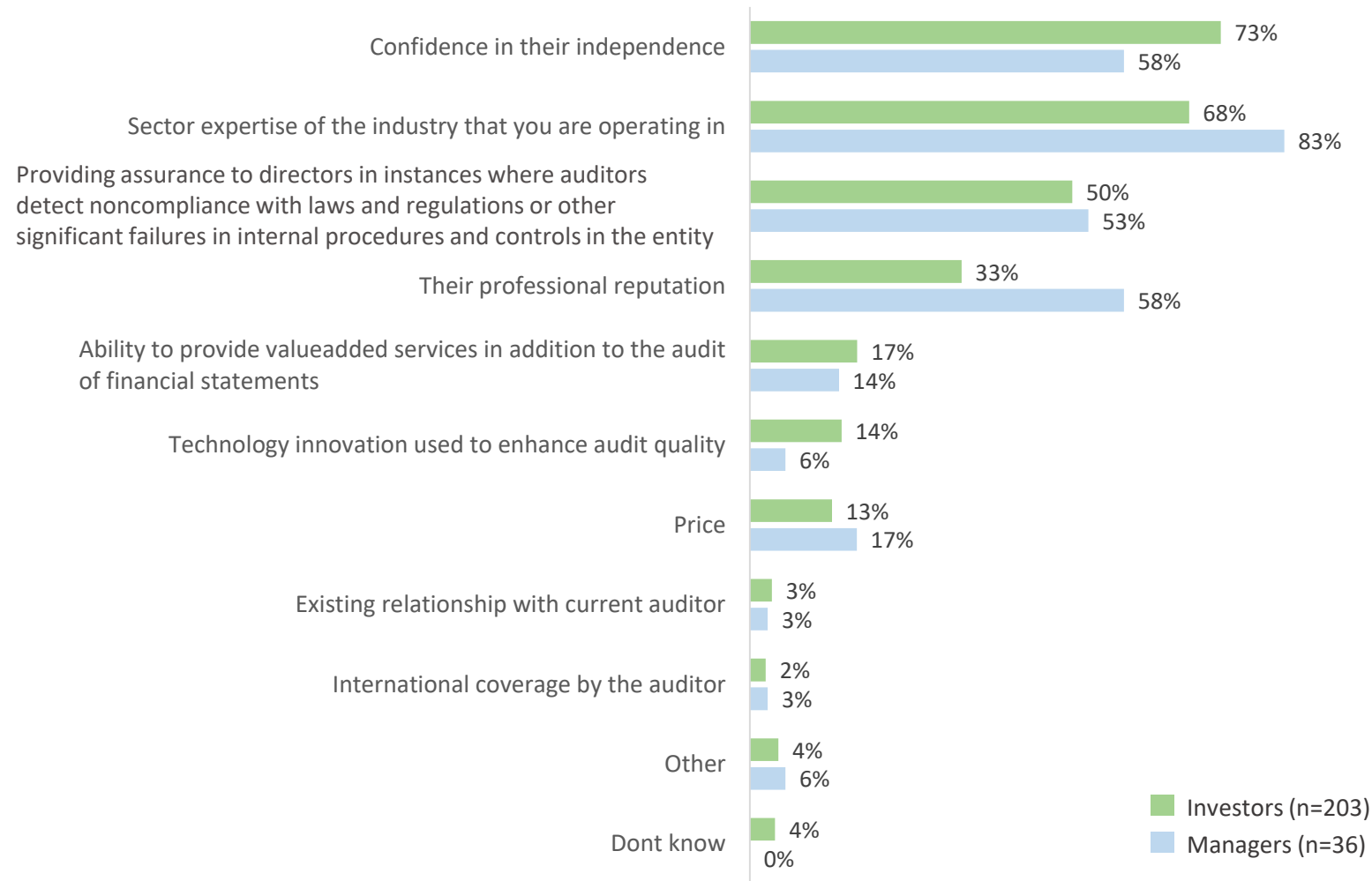
Q: 'You didn't agree with the statement 'You get good value from the fees your audit firm charges', are you able to tell us why that is?' Base: n=114



\*6% were blank. All other responses were below 4%.

# Factors Directors and ARC should consider

## Top three important factors



73% of investors believe that one of the three top factors that Directors and Audit and Risk Committees should consider when selecting an audit firm is confidence in their independence.

Investors also think that sector expertise of the industry (68%) and providing insurance to directors in instances where auditors detect non-compliance (50%) are important factors that Directors and Audit and Risk Committees should consider when selecting an audit firm.

# Factors Directors and ARC should consider

## Most important factor



Investors were then asked to select the most important factor from the top three they selected previously.

Confidence in their independence (30%) is the most important factor investors believe Directors and Audit and Risk Committees should consider when selecting an audit firm, closely followed by providing assurance to directors in instances where auditors detect non-compliance (27%), and sector expertise of the industry (21%).

# Reasons for the top factors Directors and ARC should consider

## Confidence in their independence:

(Investors n=58; Managers n=8)

Investors who think that having confidence in their independence is the top factor directors / ARC consider when selecting an audit firm, mentioned that there needs to be space between the two parties to eliminate any perceived bias. Some also mentioned that this is something that the shareholders expect.

## Providing assurance to directors....:

(Investors n=53; Managers n=8)

Investors who believe that providing assurance to directors in instance of non-compliance is the most important factor mentioned that this way non-compliance issues will be detected and reported on. This will also ensure that financial risks are identified and highlighted for action. A few also mentioned that an independence of the auditor is also need to ensure this can happen.

## Sector expertise of the industry...:

(Investors n=40; Managers n=10)

Investors who said that sector expertise is the top factor for directors / ARC to consider mentioned that the industry knowledge and specialist skills are important. A few said that it can mean that non-compliance issues and financial risks are identified and that the industry standards are maintained.

## Their professional reputation:

(Investors n=23; Managers n=7)

Investors who mentioned an auditors/audit firms professional reputation as the top factor said so because they believe a demonstrated professional reputation is important, and some mentioned a proven track record inspires confidence in the firm.

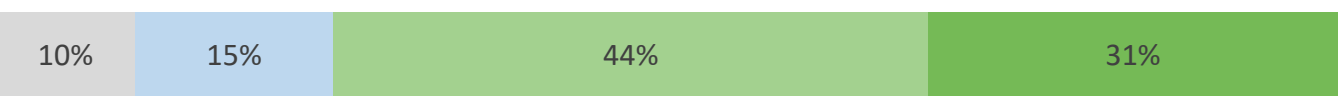
## Other reasons:

A few investors mentioned that all of the factors listed are important things to consider, while reasons for other top factors included cost, that the investment in the audit is returned with a high value report, and/or that the auditors add value to the company that otherwise wouldn't be available.

# Checking the identity and standard of auditors

When reviewing financial statements, do you check the identity of the auditor:

Investors



Managers



Not applicable    No - never    Yes - sometimes    Yes - always

Total  
yes

75%

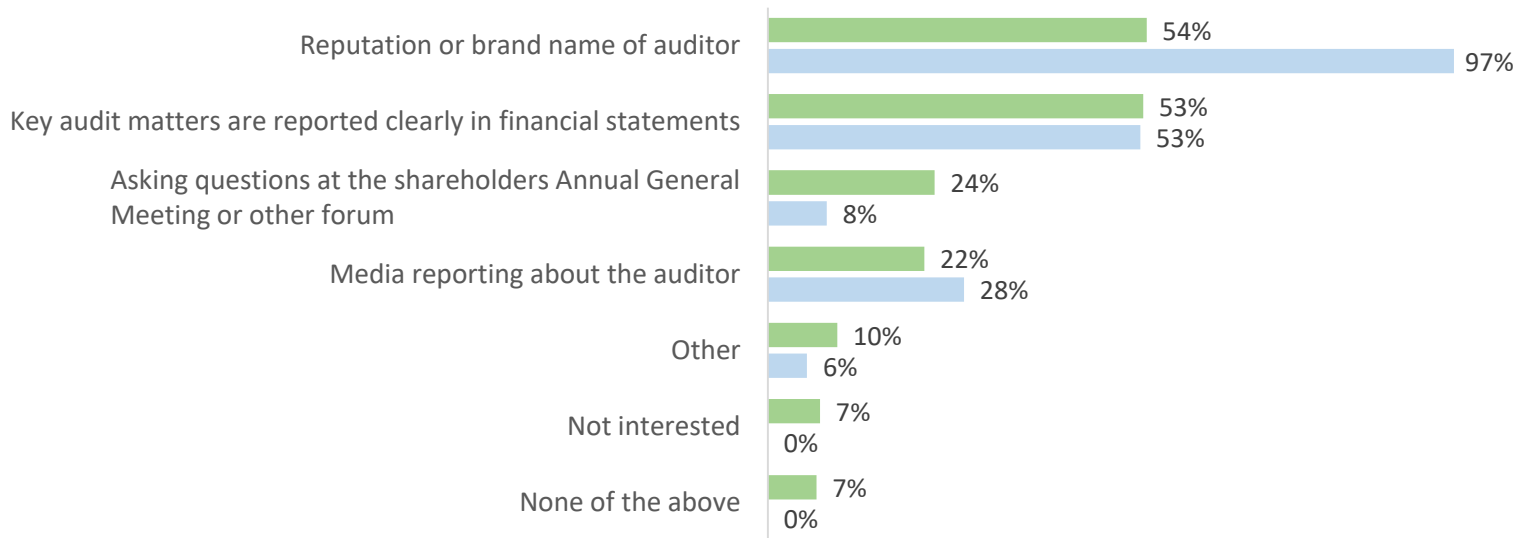
83%

Three quarters of investors either sometimes, or always, check the identity of the auditor when reviewing their financial statements, whereas 83% of managers do the same.

For investors and managers, the top ways they check if the auditor is of a good standard is by the reputation or brand name of the auditor, and checking that key audit matters are reported clearly.

Managers are more likely than investors to always check the identity of the auditor, and are also more likely to decide that the auditor is of good standard through their reputation or brand name.

How you decide if the auditor is of good standard:

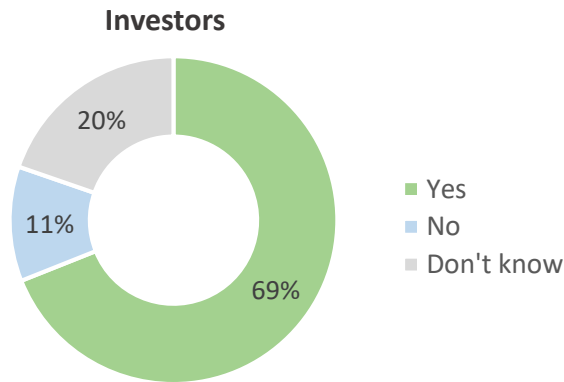




# Value of publishing quality reviews

The FMA conducts quality reviews of registered audit firms and issues an annual report on its findings. This is based on reviews of audit files in one year but focuses on general themes rather than individual firms.

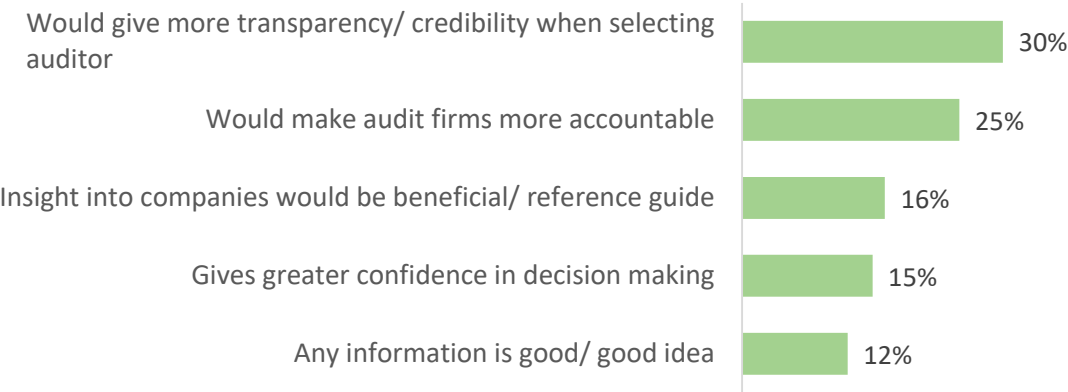
**Do you see value in the FMA going further and publishing summary information about the findings of quality reviews of individual registered audit firms?**



69% of investors mentioned they see value in the FMA going further and publishing summary information about the findings of quality reviews. Reasons for this are because they believe it would give more transparency/ credibility when selecting an auditor (30%), would make the firms more accountable (25%), and give greater insight into companies (16%).

Investors are more likely than the other key groups (Directors, ARC, Managers, and Auditors) to say that they see value in publishing summary information.

**IF YES - Can you tell us why? What impact would this have on how audit firms are viewed? (n=140)**



*\*8% were blank. All other responses were below 3%.*

**IF NO - Can you tell us why? What impact would this have on how audit firms are viewed? (n=23)**

Of those who said they don't see the value in publishing summary information, some said they don't trust the FMA and their systems – while a few mentioned that it's not necessary or that it would create a compliance mindset instead of focusing on the quality of the audit.

# Director, Audit and Risk Committee & Manager Perceptions

### Audit and Risk Committee (n=15)



**Audit and Risk Committee:** *Member of an Audit and Risk Committee (ARC)*



**Audit and Risk Committee:** *Chair of an Audit and Risk Committee (ARC)*

### Managers (n=36)



**Manager:** *Manager of FMC licensed entity or issuer (firms the FMA regulates and monitors - this includes issuers or providers of equity or debt offers, derivatives and MIS. This may also include banks and insurance companies as they are licensed by the RBNZ)*

### Directors (n=41)



**Director:** *Company Director of an (NZ based) **unlisted company** with extensive shareholding (e.g. 100 or more shareholders)*



**Director:** *Company Director of an (NZ based) **unlisted company** with small shareholding (e.g. less than 100 shareholders)*



**Director:** *Company Director of an (NZ based) **listed company** with a market capitalisation of <\$50Million*



**Director:** *Company Director of an (NZ based) **listed company** with a market capitalisation of >\$50Million*

# Director/ARC perceptions of audit quality

To what extent to you agree or disagree with the following (n=56):

Audited information provides investors with more reliable information than unaudited information



Auditors are sufficiently independent from the entities they audit



I trust the audit profession in NZ to act with ethics and integrity



Auditors show sufficient professional scepticism when they are auditing financial statements



Strongly disagree + disagree    Neither agree nor disagree    Strongly agree + agree    Don't know

Average rating

4.2

4.0

4.0

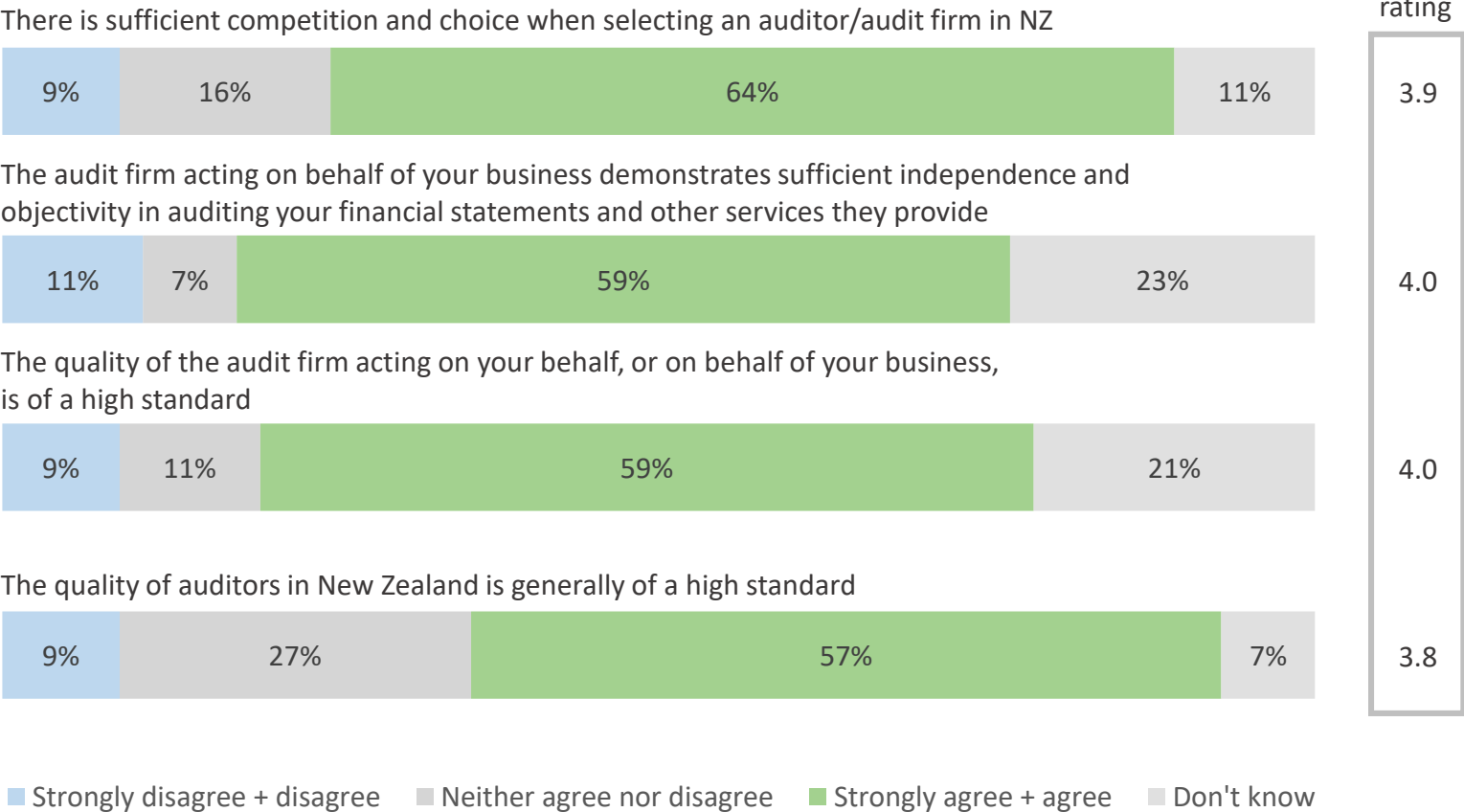
3.8

Looking at **director and ARC perceptions of the audit profession in New Zealand**, 82% of directors and ARC agree that audited information provides investors with more reliable information, 71% agree that auditors are sufficiently independent, and 68% trust the audit profession to act with ethics and integrity.

Directors and ARC are more likely to agree with the statement ‘auditors show sufficient professional scepticism when they are auditing financial statements’ when compared to the other key groups.

# Director/ARC perceptions of audit quality

To what extent to you agree or disagree with the following (n=56):



Directors and ARC are less likely than managers to agree with the statement ‘the audit firm acting on behalf of your business demonstrates sufficient independence and objectivity in auditing your financial statements and other services they provide’.

64% of directors and ARC agree there is sufficient choice when selecting an auditor/audit firm, while 59% think the quality of the audit firm acting on their behalf is of a high standard and 57% think the quality of auditors in New Zealand is generally of a high standard.

# Director/ARC perceptions of audit quality

To what extent to you agree or disagree with the following (n=56):

Auditors challenge the judgement of the management and directors of the entities they audit



There is sufficient oversight and effective regulation of licensed auditors in NZ



I find audited financial statements and information clear and easy to understand



You get good value from the fees the audit firm charges



Strongly disagree + disagree    Neither agree nor disagree    Strongly agree + agree    Don't know

Average rating

3.5

3.7

3.4

3.3

Half of the directors and ARC respondents agree that there is sufficient oversight and effective regulation of licensed auditors in New Zealand. The same amount agree that the audited financial statements they receive are clear and easy to understand, while a lower 39% agree that they get good value from the fees audit firms charge.

# Manager perceptions of audit quality

To what extent to you agree or disagree with the following (n=36):

The audit firm acting on behalf of your business demonstrates sufficient independence and objectivity in auditing your financial statements and other services they provide



Audited information provides investors with more reliable information than unaudited information



I trust the audit profession in NZ to act with ethics and integrity



The quality of the audit firm acting on your behalf, or on behalf of your business, is of a high standard



Total agree

100%

Average rating

4.8

97%

4.7

97%

4.6

97%

4.5

Strongly disagree Disagree Neither agree nor disagree Agree Strongly agree Don't know

Looking at **manager perceptions of the audit profession in New Zealand**, managers were more likely to agree with all statements when compared to the other key groups (investors, directors, ARC, and auditors).

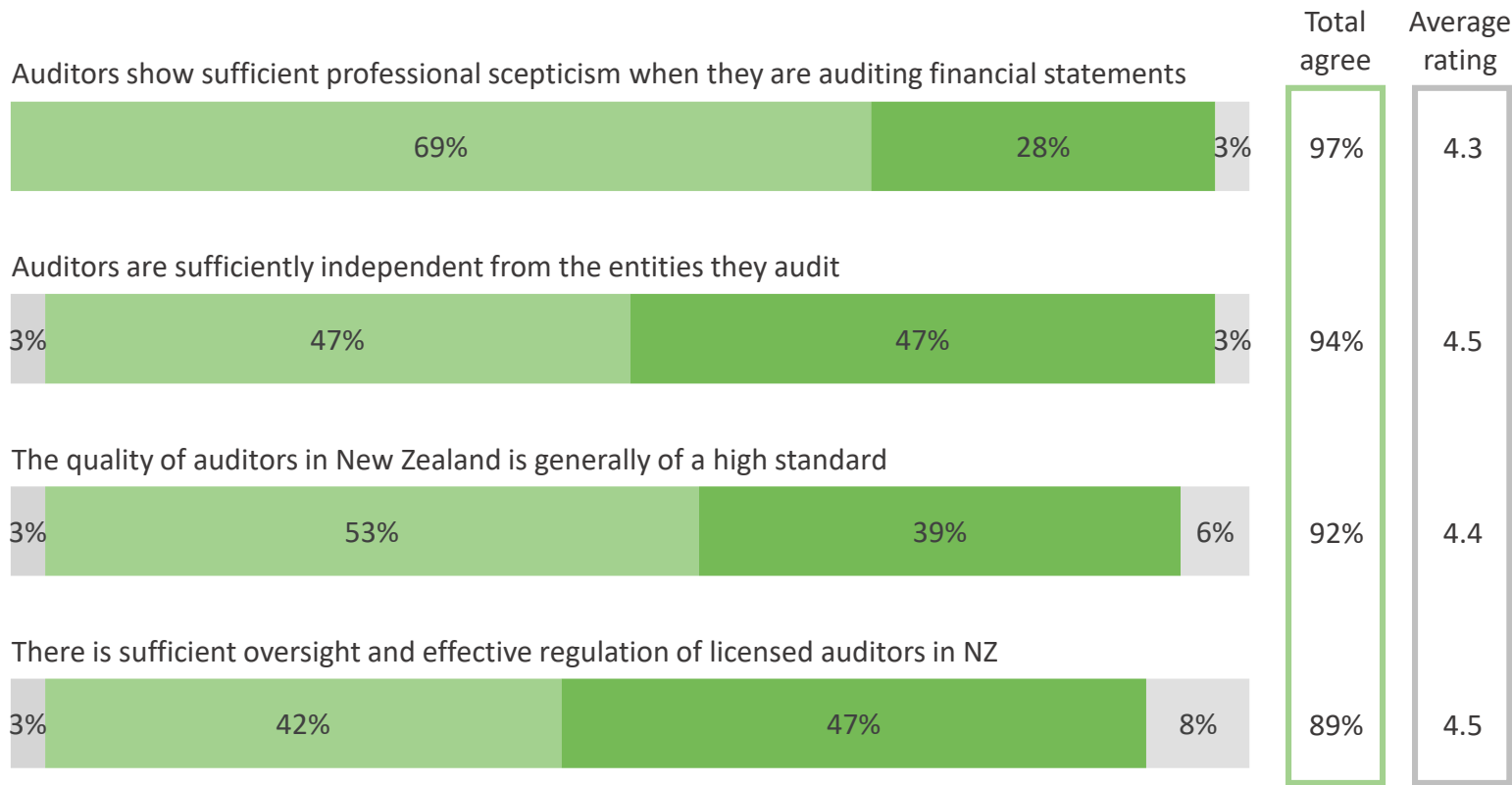
All of the 36 managers surveyed agree that the audit firms acting on behalf of their businesses demonstrate sufficient independence. The majority of managers also agree that audited information is more reliable than unaudited, and that the quality of the audit firms is of a high standard.

97% of managers trust the audit profession in New Zealand to act with ethics and integrity.



# Manager perceptions of audit quality

To what extent to you agree or disagree with the following (n=36):



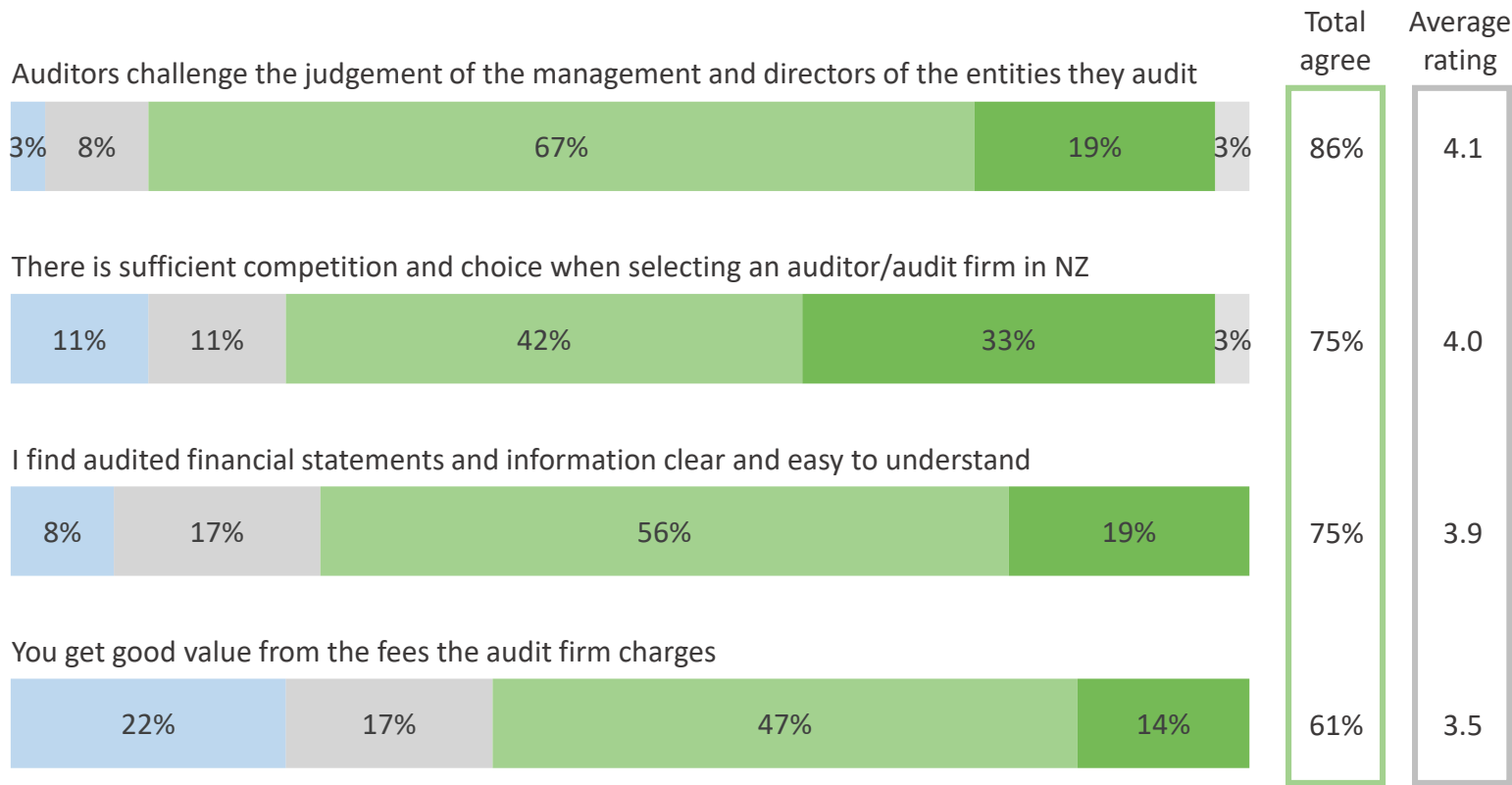
Strongly disagree Disagree Neither agree nor disagree Agree Strongly agree Don't know

92% of managers agree that there generally a high standard of auditors in New Zealand and 89% agree that there is sufficient oversight and effective regulation of licensed auditors in New Zealand.



# Manager perceptions of audit quality

To what extent to you agree or disagree with the following (n=36):



Strongly disagree Disagree Neither agree nor disagree Agree Strongly agree Don't know

Three quarters of managers agree that there is sufficient choice and competition when selecting an auditor/audit firm, while 61% agree that they get good values from the fees charged.

## Reasons for not agreeing with 'audited information provides investors with more reliable information than unaudited information':

*"The information is no more correct than un-audited accounts."*

*"Opinion based on experience and healthy skepticism."*

*"Not true."*

*"Auditors are more concerned with non-sensical accounting standards than they are with the truth."*

*"Lack of confidence in the audit process."*

*"The information never gets changed."*

## Reasons for not agreeing with 'auditors are sufficiently independent from the entities they audit':

*"They do not report to shareholders or respond to shareholders questions only to the Board. This is not independent."*

*"Opinion based upon analysis."*

*"An example, listed entity SFF COOP is audited by the same auditor who serves their major asset, SFF, the coop accounts are prepared by the subsidiary accountants. At a recent shareholders meeting the lead auditor said he saw absolutely no conflict in this situation. The industry is fundamentally unethical."*

*"As an investor in NZX listed companies it is sometimes not possible for me to make a judgement."*

*"Some auditors have other business with the entities they audit."*

*"Auditors may feel they need to go easy during an audit, otherwise the firm might not be appointed the following year."*

## Reasons for not agreeing with 'I trust the audit profession in NZ to act with ethics and integrity':

*"I have lost too much money investing in companies with lovely audit reports."*

*"Opinion based on skepticism that fees determine audit choices. The fact that they often also provide non-audit services is a cause for concern, but little comments appears in reports."*

*"Too many instances of unscrupulous behaviour."*

*"It appears to be an "old boys network."*

*"You can never be 100% sure."*

## Reasons for not agreeing with 'auditors show sufficient professional scepticism when they are auditing financial statements':

*"Auditors generally take what they see at face value."*

*"Several well publicised instances of auditors not reporting significant problems with companies."*

*"Because they would need to do more work and not get paid for it. In NZ, auditors are regularly exposed for failure to identify clear frauds, insolvency and management failure after business fail, I have yet to see an audit lead to timely investigation of fraud or mis-management."*

*"It seems to me, if in doubt, tick."*

*"Varies by auditor. Best are excellent but very uneven when you get below the best. Smaller firms especially weak."*

*"The audited accounts I have seen are more filled with auditors notes about responsibilities as an auditor than feedback on the numbers being presented in the financial accounts."*

*"Cannot trust them."*

*"I have never experienced them questioning beyond the obvious."*

## Reasons for not agreeing with 'there is sufficient competition and choice when selecting an auditor/audit firm in NZ':

*"Location , size of audit firm and their team tends to restrict choice."*

*"The big Audit firms seem to have a stranglehold on audit work."*

*"There are only four big firms. We can't afford to lose any more."*

*"We look for big four type firms and the mid range firms are often not able to assist a licensed entity. Brand does matter."*

*"To few working to the same standard and rules so - you get the same report."*

## Reasons for not agreeing with 'the audit firm acting on behalf of your business demonstrates sufficient independence and objectivity in auditing your financial statements and other services they provide':

*"Auditors are selected by management to perform in front of investors, and are selected for the quality and cost of the performance."*

*"They do other work for companies and must collude on matters. I can not ever see a Audit report criticizing another division within the same company."*

*"Situations of incompetency."*

*"They like the exorbitant sums of money we pay them."*

## Reasons for not agreeing with 'the quality of the audit firm acting on your behalf, or on behalf of your business, is of a high standard':





## Reasons for not agreeing with 'the quality of auditors in New Zealand is generally of a high standard':

*"Auditors are rarely independent of management and investment communities, they risk losing income from client base if they set high standards."*

*"Lack of oversight and conflicts of interest."*

*"There are good quality auditors but they are limited to a few good people in the Big 4."*

*"Look at ....(example companies) for a start - they prove the point."*

*"Many only respond to questions from directors rather than saying what they would do or look out for if they were on the board, it should be unacceptable for a lead auditor to sign the audit off in the firms name, this really undermines the accountability."*

*"Teams biased toward young and inexperienced. Senior oversight is limited in hours. Not many debates or good questioning."*

*"They often can't explain what they're doing and why."*

## Reasons for not agreeing with 'auditors challenge the judgement of the management and directors of the entities they audit':

*"Auditors sit outside the organisation, don't speak to management and directors enough. The auditors are too aloof to really give excellent insights and feedback."*

*"I feel that while most auditors might challenge are minor matters they are unlikely to do so re major audit issues."*

*"Opinion based on lack of reported challenges. Audit reports reveal any lack of challenge."*

*"There is no challenge of judgement, simply and audit and report. No challenge!"*

*"No desire to bite the hand that feeds."*

*"Not challenge. Only look at financials."*

*"They lack the detailed knowledge of the business."*

*"Varies by firm and auditor. At top of tree some exceptional talent but talent isn't even."*

## Reasons for not agreeing with 'there is sufficient oversight and effective regulation of licensed auditors in NZ':

*"I am aware there is legislation and requirements in place for auditors however, like every industry there are always cowboys or independent auditors outside the system."*

*"I am not familiar with the requirements of Auditors by the FMA, CAANZ et al. In light of the Haynes Commission findings in Finance and Insurance companies - all of whom are audited internally and externally...We have the attitude that financial operators like Auditors in NZ "will do the right thing", however I am not sure that the FMA, CAANZ, Reserve Bank, Commerce Commission et al have clear oversight."*

*"If it exists it is very low key."*

*"If there were oversight we would see the carcasses of poor auditors hanging on every street corner. The industry here is blatantly incompetent to the point of corruption."*

*"Not aware of regulation dealing with lead or auditor partners at an individual level, seems to be mainly focused at sectors or firms, so no individual accountability from people who should be personally signing of audits with their name not just the audit firms name."*

*"There needs to be a more thoroughly regulated approach to licensing of audit agencies."*

*"They appear to be self regulated."*

## Reasons for not agreeing with 'I find audited financial statements and information clear and easy to understand':

*"Complexity and technical nature of accounting standards interpretation."*

*"There is an old saying - 'Profit is a matter of opinion, cash is a matter of fact'. The audited profit results, to comply with Accounting Standards, are so far from reality in many cases, that investors have no idea what is going on."*

*"Over the years the accounting profession has made financial statement increasingly difficult to understand. Recent changes to IFRS 9 IFRS 15 and impending IFRS 16 cause an enormous amount of work and cost - generate fees for the profession - and do they really help anyone with anything? I doubt it."*

*"Insufficient detail in some statement lines and in the notes, also the basis and timing of assumptions/valuations is not always clear."*

*"Disclosure requirements of IFRS are not clear or understandable. Too much information has to be disclosed which is not relevant or material."*

*"I am not a professional accountant which I feel you need to be to fully understand."*

*"They are far too long and complex to be of any use to the retail investor. The recent discussion appear on note ordering is good but not the problem. Information needs to be presented in plain English and practical terms including even diagrams. We are supposed to be communicating for the benefit of the investor."*

*"Too verbal and frankly not clear with too many disclaimers."*

## Reasons for not agreeing with 'you get good value from the fees the audit firm charges':

*"The auditor charged "exorbitant" fees for auditing a restatement of the financials. He was able to do that because we were locked in with no alternative options."*

*"The rules have become very complicated and the detail disguises problems"*

*"I would like, just once, to see an auditor provide time sheets with audit invoices. All of the audits I have been involved with are fixed cost negotiated rates, auditor benefit derives from minimizing input."*

*"It's more of a compliance cost rather than something you get good value from."*

*"Very expensive fees for a small business."*

*"The cost of audits seems unjustifiable and it would help if they were easily challenged."*

*"The fees charged are incredibly high so I expect a quality report and critique however the findings and feedback to our organisation lack the pertinent and important points we expect to see."*

*"Auditors would be a lot better using the audit as a Company Review, and the audit as part of it. They inspect the Company and can see its weaknesses in systems, processes and people. They would add more value if they provided companies with some real output, rather than being just policemen."*

*"We did not receive 'value for money.'"*

# Factors to consider

## Top three important factors



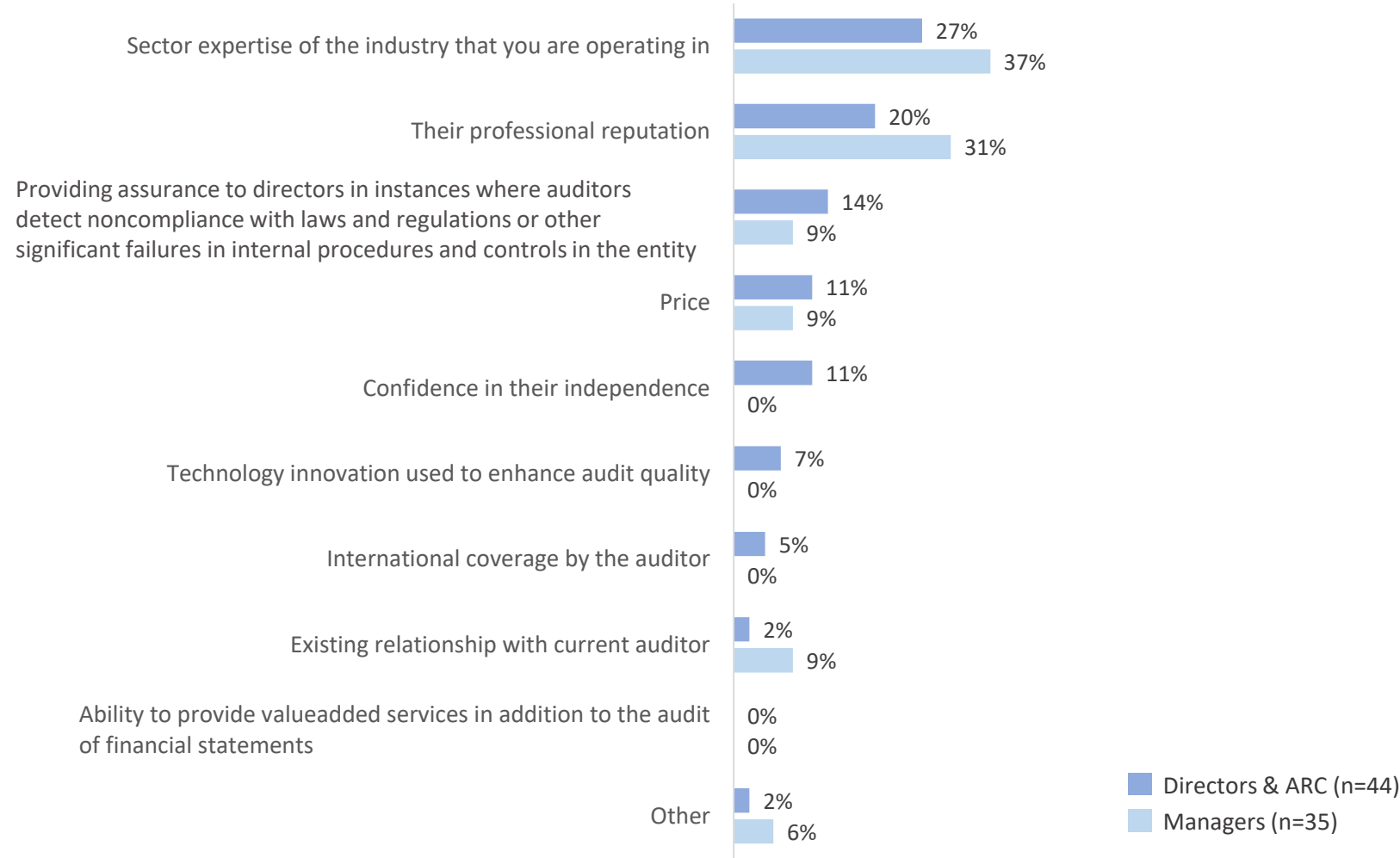
41% of directors and ARC believe that one of the three top factors that they should consider when selecting an audit firm is sector expertise of the industry they are operating in.

Directors and ARC also think that the professional reputation (39%) and confidence in their independence (30%) are important factors to consider when selecting an audit firm to act on their behalf.

Managers agree that sector expertise and professional reputation are two of the top three factors, but 44% also think price is one of the top three important factors.

# Factors to consider

## Most important factor



Respondents were then asked to select the most important factor from the top three they selected previously.

Sector expertise (27%) is the most important factor directors and Audit and Risk Committees think they should consider when selecting an audit firm, closely professional reputation (20%), and providing assurance in instances where auditors detect non-compliance (14%).

Managers top factors to consider are similar to those of directors and ARC.

# Reasons for the top factors

## Sector expertise of the industry....:

(Directors & ARC n=12; Managers n=13)

Directors and Audit and Risk Committees who think that sector expertise is the top factor to consider when selecting an audit firm, think this because they want to be sure the auditors understand the sector they are working in, especially for those in specialist sectors. Managers and directors/ARC both believe industry knowledge gives better insight.

## Their professional reputation:

(Directors & ARC n=9; Managers n=11)

Directors, ARC and managers mentioned that a strong reputation shows that the audit firm has the expertise and experience to do the job which is why it is the top factor they consider when looking for a firm.

## Providing assurance to directors...:

(Directors & ARC n=6; Managers n=3)

Directors/ARC who said that an auditors ability to provide assurance to directors in instance of non-compliance is the top factor to consider, said so because it is important to them that they are able to receive guidance / understand any risks, and speaks to the point of the audit.

## Price: (Directors & ARC n=5; Managers n=3)

The few who mentioned that price is the key factor said so purely because their budgets, or limited budgets, are just something they have to consider.

## Other reasons:

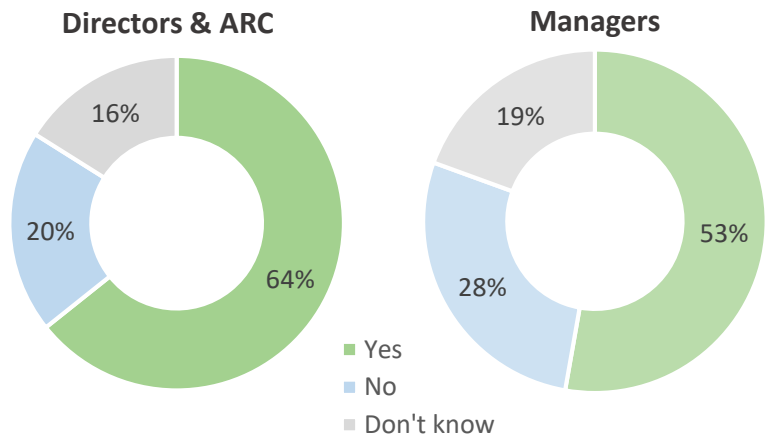
Reasons for other top factors included that an existing relationship is something that directors/ARC/managers consider, while a few also mentioned the need for the audit firm to be independent and unbiased.



# Value of publishing quality reviews

The FMA conducts quality reviews of registered audit firms and issues an annual report on its findings. This is based on reviews of audit files in one year but focuses on general themes rather than individual firms.

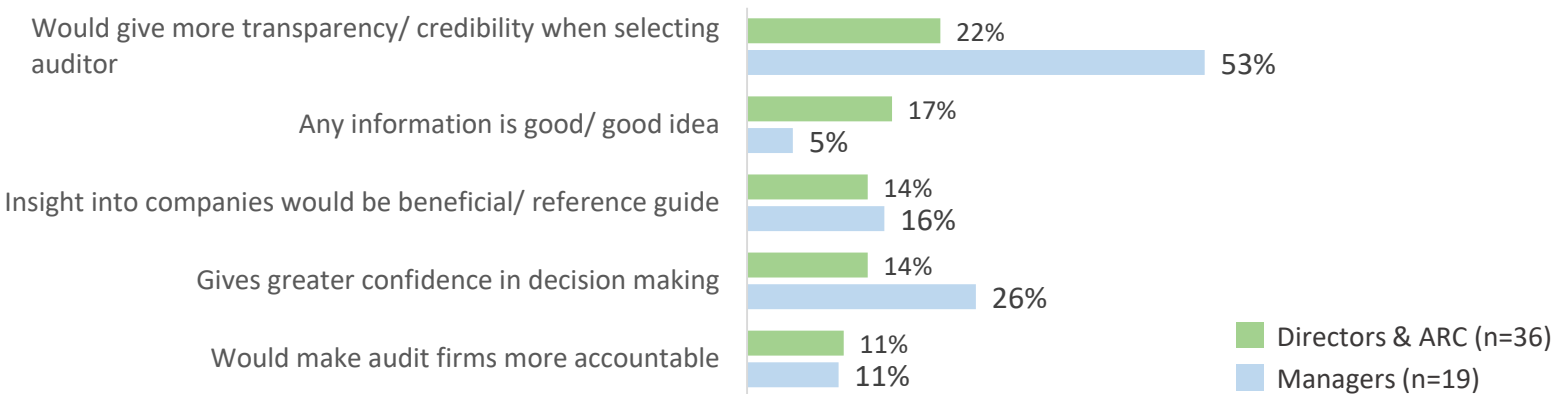
**Do you see value in the FMA going further and publishing summary information about the findings of quality reviews of individual registered audit firms?**



64% of directors and ARC mentioned they see value in the FMA going further and publishing summary information about the findings of quality reviews (similar to investors). Reasons for this are because they believe it would give more transparency/credibility when selecting an auditor (22%), any information is good (17%), and give greater insight into companies (14%).

Just over half (53%) of managers mentioned they see value in publishing summary information. They agree that it would give more transparency (53%), and a quarter (26%) think it would give greater confidence in decision making.

**IF YES - Can you tell us why? What impact would this have on how audit firms are viewed? (Directors & ARC n=36; Managers n=19)**



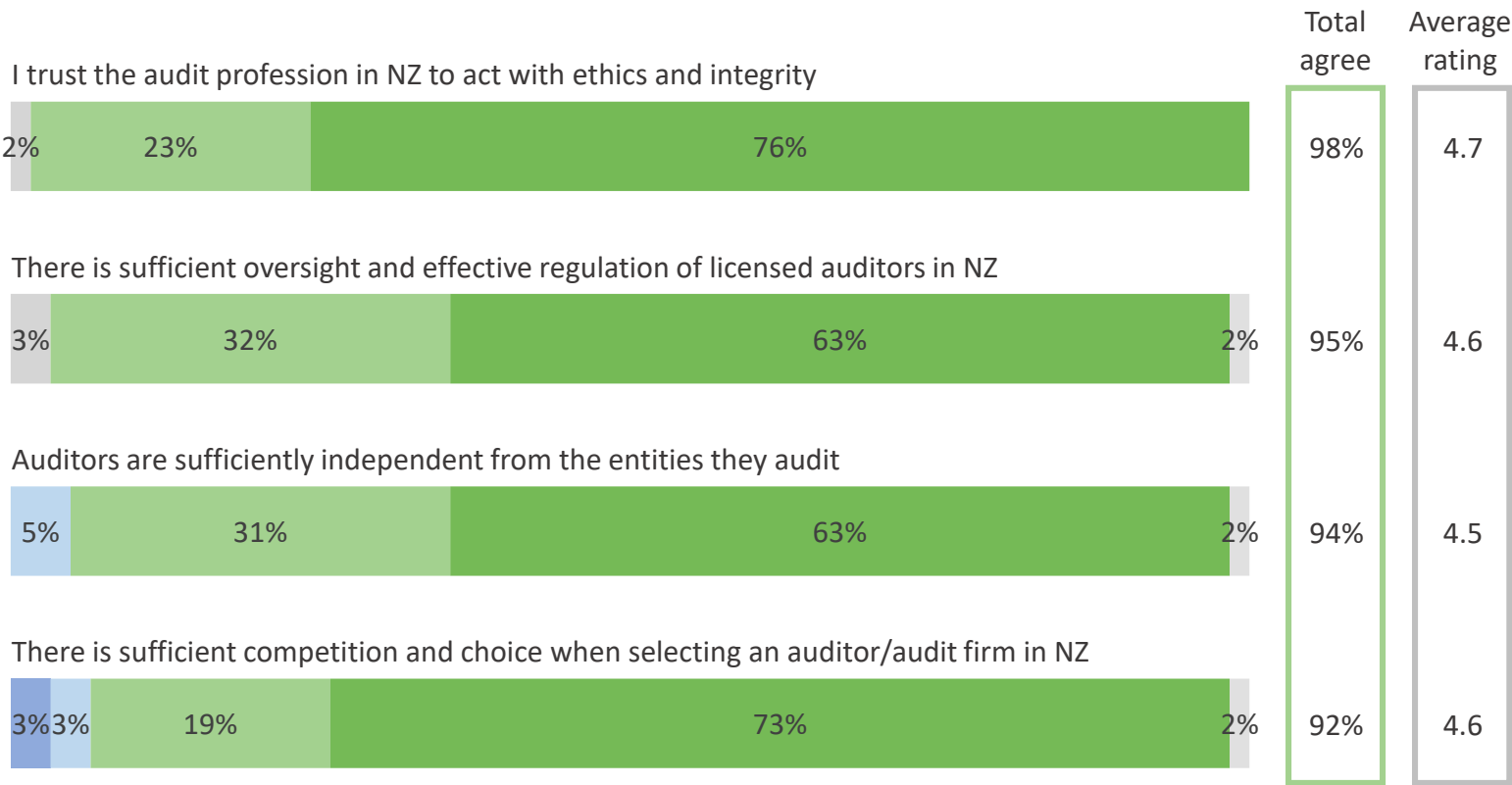
**IF NO - Can you tell us why? What impact would this have on how audit firms are viewed? (Directors & ARC n=11; Managers n=10)**

Those who mentioned that they don't see the value of the FMA going further and publishing summary information, said so mainly because they think it's not necessary.

# Auditor Perceptions

# Auditor perceptions of audit quality

To what extent to you agree or disagree with the following (n=62):



Strongly disagree Disagree Neither agree nor disagree Agree Strongly agree Don't know

Looking at **auditor perceptions of the audit profession in New Zealand**, the majority of auditors agree that they trust the audit profession (98%), there is sufficient oversight and effective regulation (95%), they are sufficiently independent (94%), and there is sufficient competition and choice when selecting an auditor/audit firm (92%).

Auditors, like managers, are more likely to agree with these four statements when compared to the rest of the key groups.

# Reasons for not agreeing

*"Relationships evolve over time.  
Repeat audits by same auditor."*

*"They don't [act with ethics and integrity].  
Too many profit driven audit directors."*

*"There are fewer and fewer audit  
firms available to FMC entities, thus  
reducing the pool of choice. This has  
come about from over regulation."*

*"The FMA seems to just copy the issues  
/reports produced by IFIAR . I find it  
difficult to believe we have exactly the  
same issues that the EU and US have  
and don't in fact have some of our own.  
In addition after 5 years not all audit  
partners in firms have been reviewed."*

*"Majority of audits of large listed entities  
undertaken almost exclusively by Big 4 who also  
often provide in significant other services."*

Q: 'You didn't agree with the statement 'I trust the audit profession in NZ to act with ethics and integrity', are you able to tell us why that is?' Base Auditors: n=1

Q: 'You didn't agree with the statement 'There is sufficient oversight and effective regulation of licensed auditors in NZ', are you able to tell us why that is?' Base Auditors: n=2

Q: 'You didn't agree with the statement 'Auditors are sufficiently independent from the entities they audit', are you able to tell us why that is?' Base Auditors: n=3

Q: 'You didn't agree with the statement 'There is sufficient competition and choice when selecting an auditor/audit firm in NZ', are you able to tell us why that is?' Base Auditors: n=4

The one auditor didn't agree with 'I trust the audit profession to act with ethics and integrity', mentioned that there are too many profit driven audit directors.

Two auditors didn't agree that there is sufficient oversight and regulation. They mentioned that there needs to be more regulation.

Reasons for not agreeing with 'auditors are sufficiently independent from the entities they audit' come down to auditors being too close to the entity, not enough separation. One auditor also mentioned others being motivated by fees and wanting to keep the contract.

The auditors who think there isn't sufficient choice / competition think so because of the limited pool of audit firms.

*\*Base sizes are too small to graph.*



# Factors that influence Directors and ARC

## Top three important factors when tendering / bidding for business

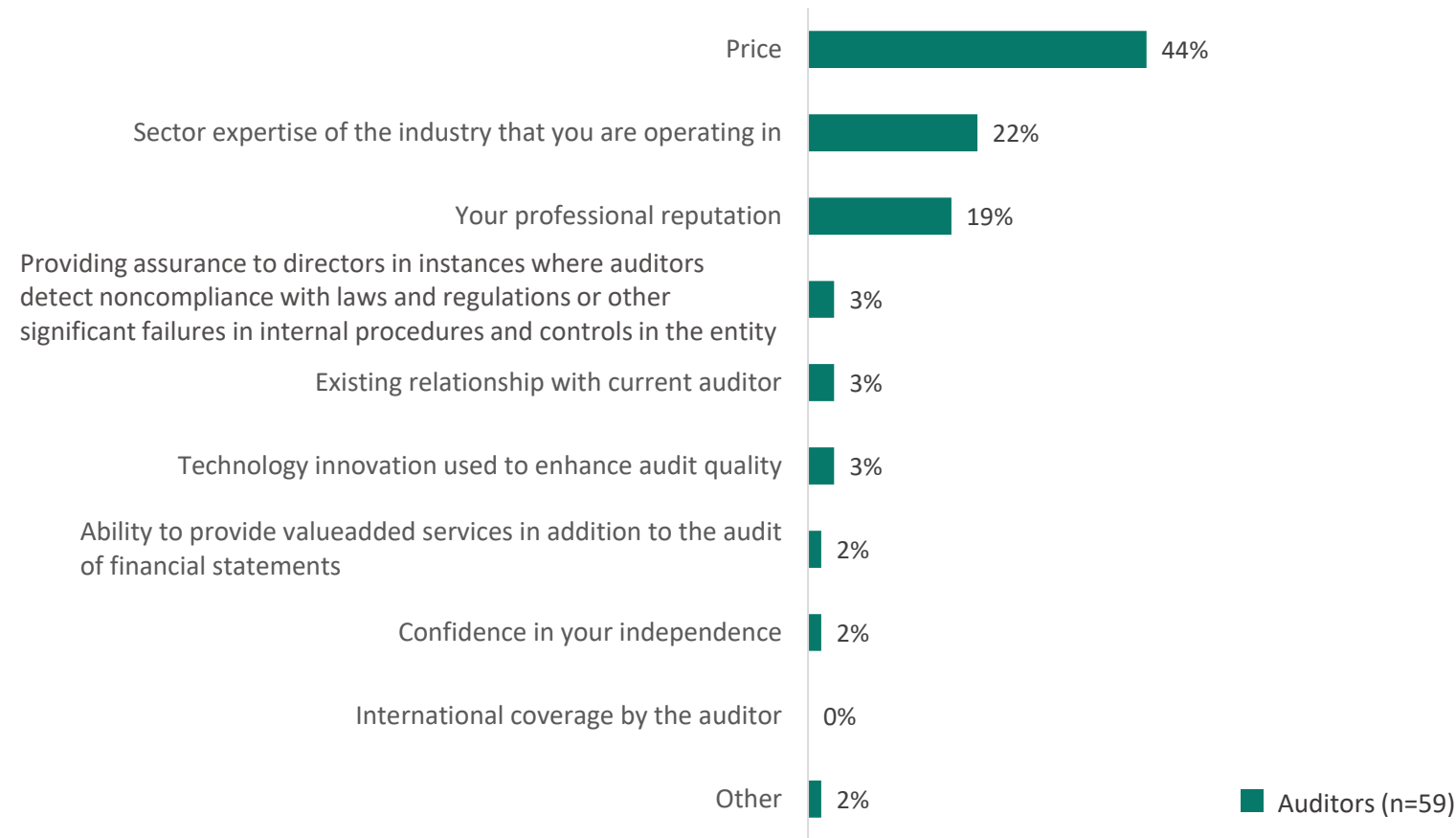


The top three factors that auditors think influence the decisions of directors and Audit and Risk Committees when they are looking for an audit firm are price (77%), sector expertise (58%), and professional reputation (40%).

The sector expertise and professional reputation factors line up with what directors and ARC said are the top factors they consider. It's interesting to see that auditors see price as one of the top factors when a lesser 23% of directors and ARC said the same – it seems that they would consider confidence in the auditors independence as a top factor over price.

# Factors that influence Directors and ARC

Most important factor when tendering / bidding for business



Auditors were then asked to select the most important factor from the top three they selected previously.

Price is the top factor auditors believe directors and ARC consider when selecting their audit firm. This is different to the 11% of directors and ARC who said the same, instead they selected sector expertise as the top factor they consider.

# Reasons for the top factors that influence Directors and ARC

## Price: (Auditors n=26)

Most auditors who think that price is the top factor that influences the decision of directors and ARC, think this because a lower cost is perceived as a benefit. Some also mentioned that “an audit is not valued by many Boards and is seen as a controllable cost”, or similar. These few auditors mentioned that an audit is a cost that directors/ARC believe needs to be kept at a minimum.

## Sector expertise in the industry...: (Auditors n=13)

The majority of auditors who think that sector expertise of the industry they're operating in is the most important factor to directors/ARC, mentioned they feel that way because directors want to know that the auditors will understand their business and will often go with auditors they have an existing relationship with.

## Your professional reputation: (Auditors n=11)

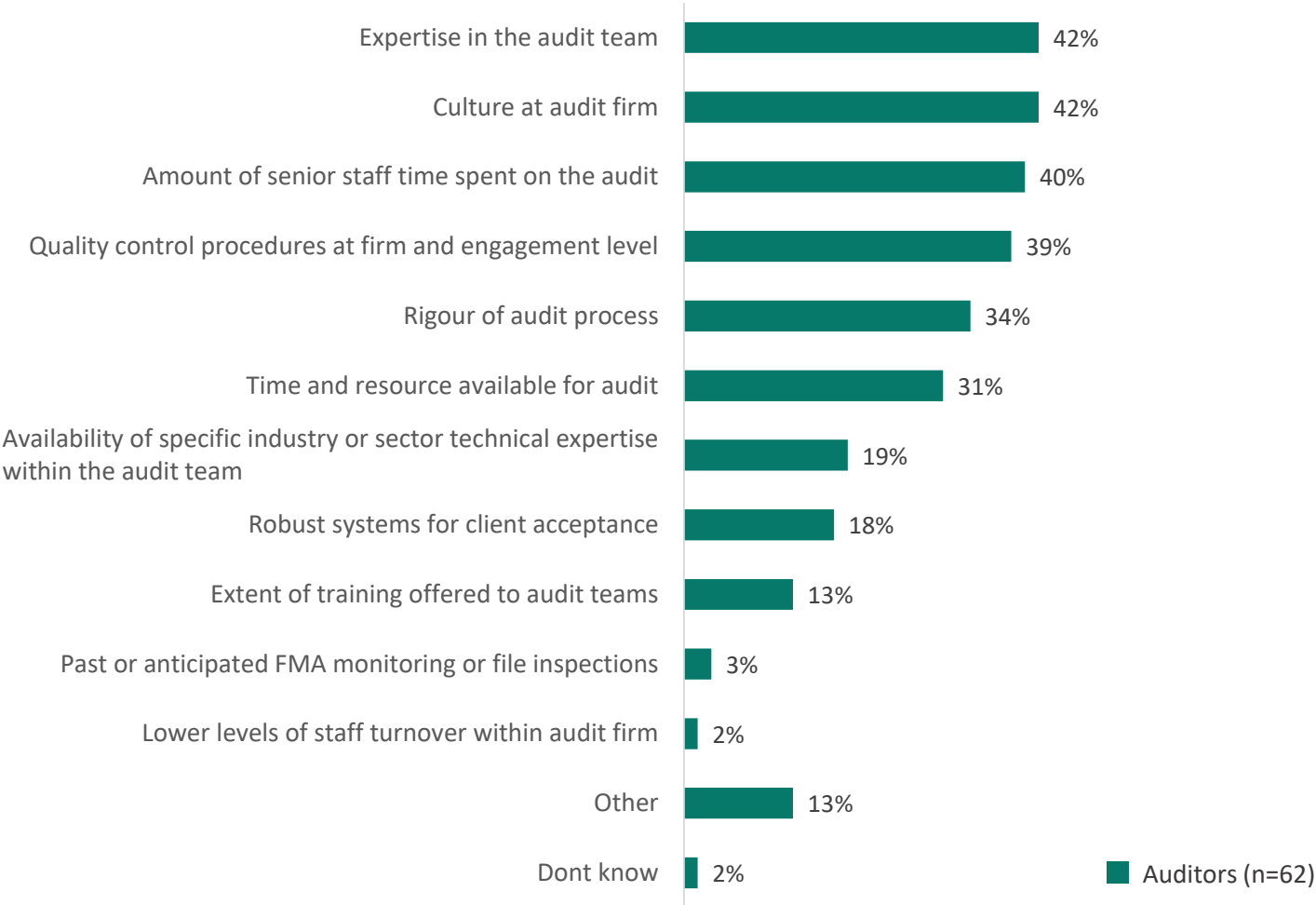
For the auditors who think professional reputation is the key factor that directors/ARC consider when selecting an auditor/audit firm, they believe that a demonstrated professional reputation and a level of trust is key to the quality of the audit.

## Other reasons:

Reasons for the other top factors ranged from auditors mentioning the independence of the auditors, to a proven track record and non-compliance / issues being detected.

# Factors that contribute to audit quality

## Top three important factors to a firm

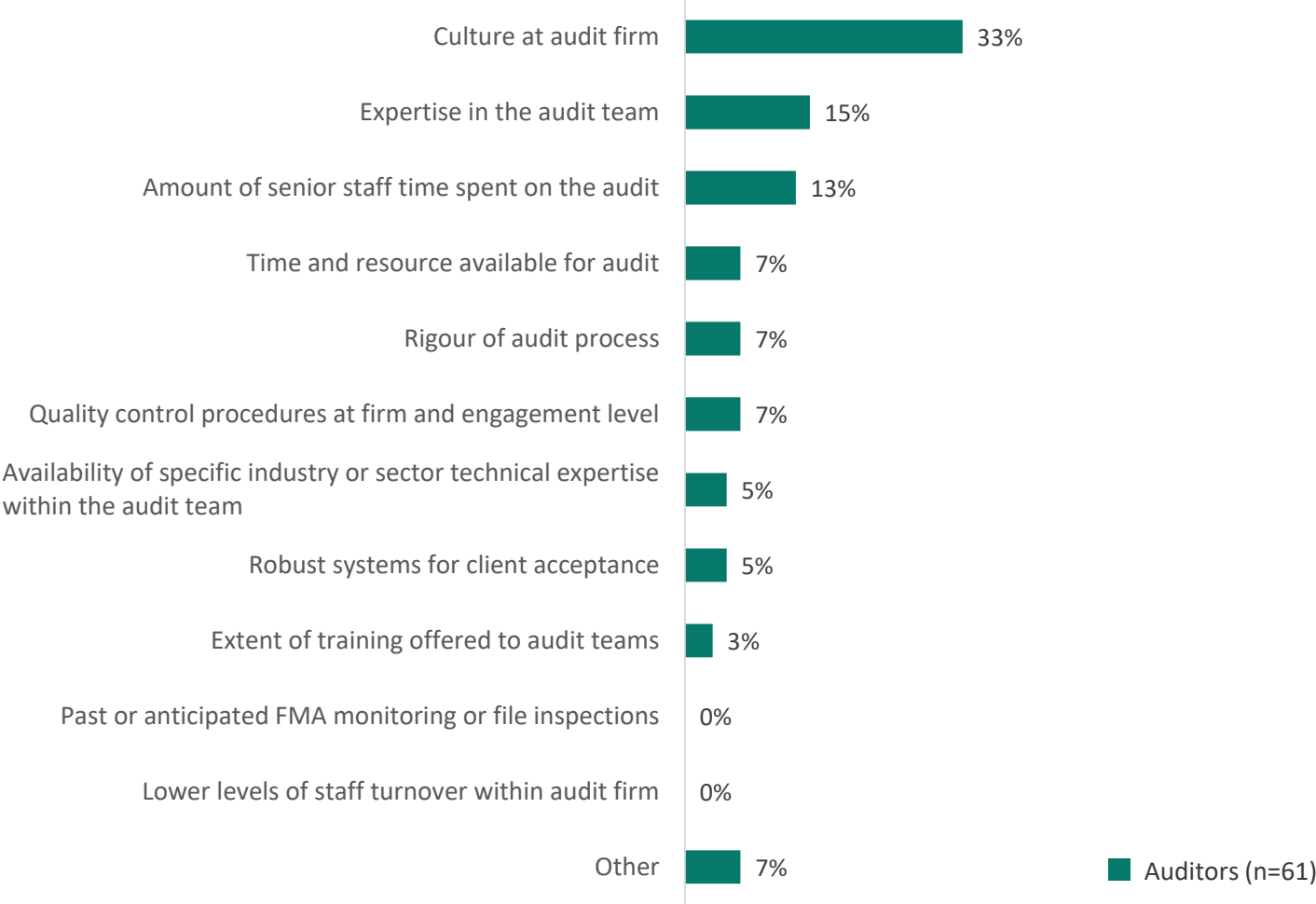


When thinking about their firms, the top three important factors auditors think contribute to audit quality are expertise in the team (42%), Culture (42%), and amount of senior staff time spent on the audit itself (40%).



# Factors that contribute to audit quality

## Most important factor to a firm



Auditors were then asked to select the most important factor from the top three they selected previously.

A third of auditors think that the culture at an audit firm is the most important factor that contributes to audit quality. 15% think that expertise in the team is most important, and 13% would say the amount of senior staff time spent on the suit is the most important factor.

# Reasons for the top factors that contribute to audit quality

## Culture at audit firm: (Auditors n=20)

Auditors who selected culture as the key factor contributing to audit quality mentioned that the culture of a firm comes from the top, and that the right culture drives consistency, long term results and a higher overall quality of work.

## Expertise in the audit team: (Auditors n=9)

Those who think expertise in the audit team is the top factor for directors/ ARC mentioned that a good audit should be thorough/ rigorous and ask lots of questions. They also mentioned that expertise, skill and knowledge are all key for audit quality.

## Amount of senior staff time spent...: (Auditors n=8)

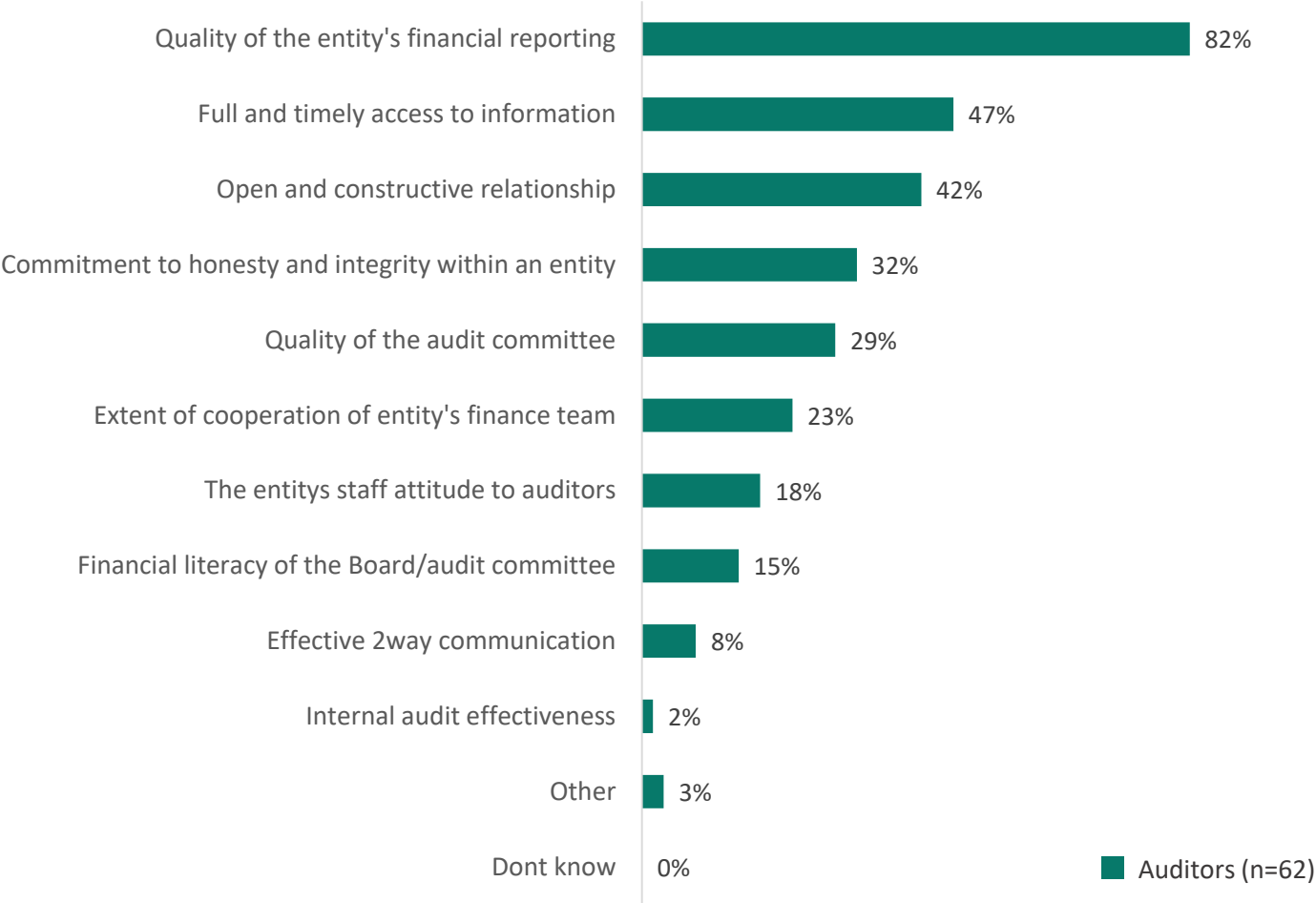
All auditors who believe that the amount of senior staff time spent on the audit is a key factor for directors/ ARC when considering an audit firm mentioned that there needs to be senior staff involved due to the complexities of audits, and a few mentioned that staff need to be held accountable for the audit.

## Other reasons:

Reasons for other key factors selected by auditors related to the quality of an audit being effected by time constraints or limited information, and that a good level of staff training teaches auditors to be accountable for their work.

# Factors that influence audit quality

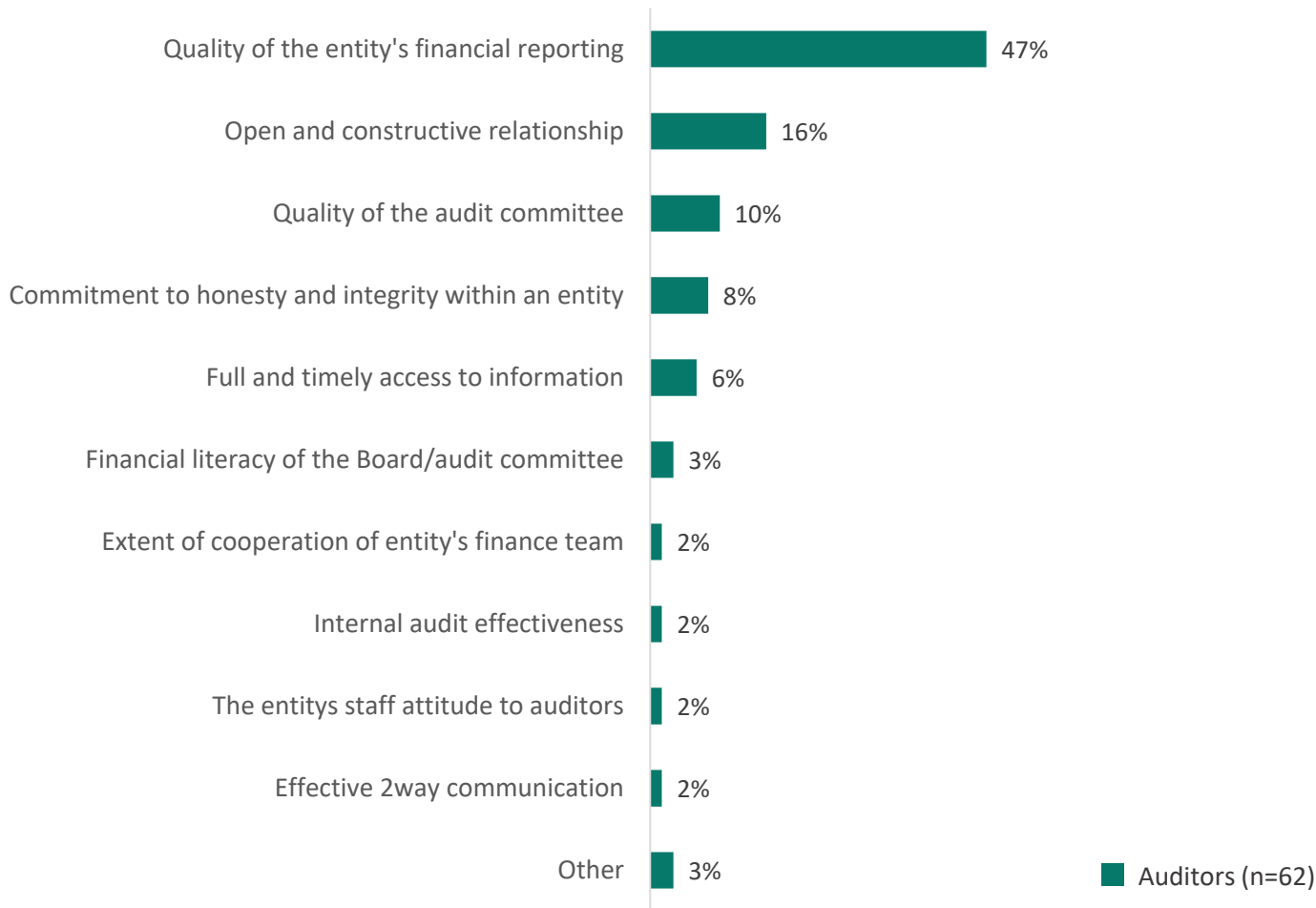
## Top three important factors to the entity being audited



When thinking about the entity being audited, the top three important factors auditors think influence audit quality are the quality of the entity's financial reporting (82%), full and timely access to information (47%), and an open and constructive relationship (42%).

# Factors that influence audit quality

Most important factor to the entity being audited



Auditors were then asked to select the most important factor from the top three they selected previously.

Nearly half (47%) of auditors think that the quality of the entity’s financial reporting is the most important factor the influences audit quality. A lesser 16% think the most important factor is an open and constructive relationship, while 11% would say it’s the quality of the audit committee.

# Reasons for the top factors that influence audit quality

## Quality of the entity's financial reporting: (Auditors n=29)

Auditors who think that the top factor influencing audit quality (when thinking about the entity being audited) is the quality of the entity's financial reporting, mentioned that the information provided must be accurate / timely, and the majority mentioned that good financial information assists with audit quality and compliance.

## Open and constructive relationship: (Auditors n=10)

Those who think the top factor is an open and constructive relationship talked about how a good relationship reiterates the culture of the entity and allows auditors to be able to work more effectively.

## Quality of the audit committee: (Auditors n=6)

Auditors who think the top factor influencing audit quality is the quality of the audit committee, mentioned that the tone and quality comes from the top and filters down through the entity.

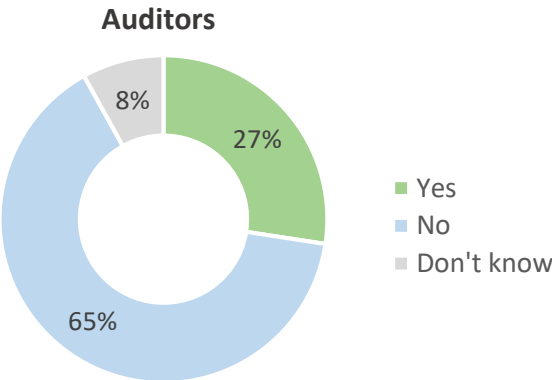
## Other reasons:

Reasons for other top factors include auditors mentioning that the entity's should be transparent, efficient, honest, competent, and act with integrity to ensure audit quality.

# Value of publishing quality reviews

The FMA conducts quality reviews of registered audit firms and issues an annual report on its findings. This is based on reviews of audit files in one year but focuses on general themes rather than individual firms.

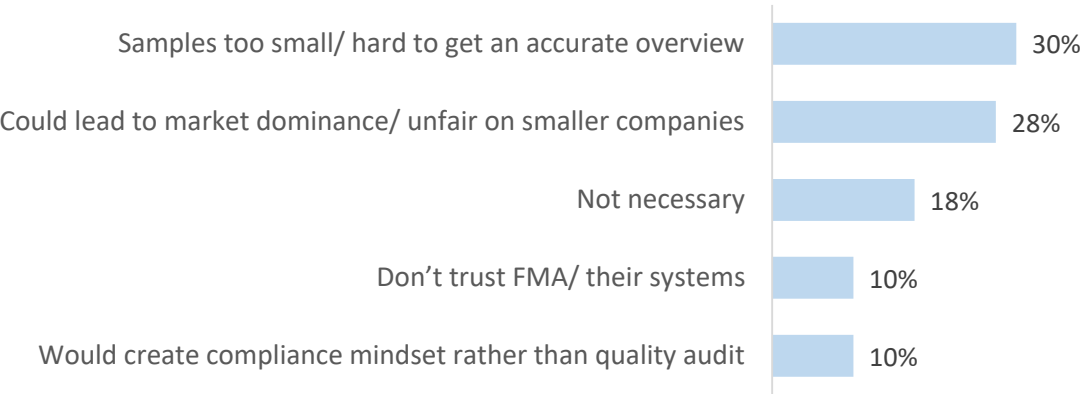
**Do you see value in the FMA going further and publishing summary information about the findings of quality reviews of individual registered audit firms?**



27% of auditors mentioned they see value in the FMA going further and publishing summary information about the findings of quality reviews (significantly less when compared to the other groups).

Two thirds (65%) said they don't see value in publishing summary information. Reasons for this are because they believe samples are too small/ it's hard to be accurate (30%), that it could lead to market dominance (28%), and because they see it as unnecessary (18%).

**IF NO - Can you tell us why? What impact would this have on how audit firms are viewed? (n=40)**



**IF YES - Can you tell us why? What impact would this have on how audit firms are viewed? (n=17)**

Of those auditors who said they do see value in publishing summary information, their reasons for saying so were similar to those of the other key groups. Some mentioned it would give more transparency, and a few mentioned it would make firms more accountable.

*\*5% were blank. All other responses were below 3%.*

Base Auditors: n=62