

Auditor regulation and oversight plan for the three years ending 30 June 2016



Financial Markets Authority

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Overview

Auditor regulation

Investor confidence is fundamental to financial markets. It depends on investor access to credible and reliable financial information on which to base decisions. Audits of an issuer's financial statements are designed to enhance investors' comfort that the statements comply with expected financial reporting standards and give a true and fair view of the financial position of that issuer. Other assurance engagements, such as reviews under the Securities Act 1978 have similar aims.

To promote quality in this work, the Auditor Regulation Act 2011 (the Act) put in place a framework for the regulation and oversight of auditors and audit firms undertaking audits in respect of issuers. This framework has been in place since July 2011.

More information about the auditor regulation and oversight regime, and the issuer audits and assurance covered by the regime, is available from FMA's website¹.

FMA's regulation and oversight plan

The Financial Markets Authority (FMA) has an obligation to publish a plan by 30 June each year, over a three year period, regarding our intentions for the regulation and oversight of auditors under the Act. This document sets out FMA's plan for the next three years to 30 June 2016 and covers:

- the impacts and outcomes that FMA seeks to achieve or contribute to (section 1)
- why each impact is important and what FMA will focus on to deliver that impact (sections 2 & 3)
- how FMA will measure these impacts (section 4).

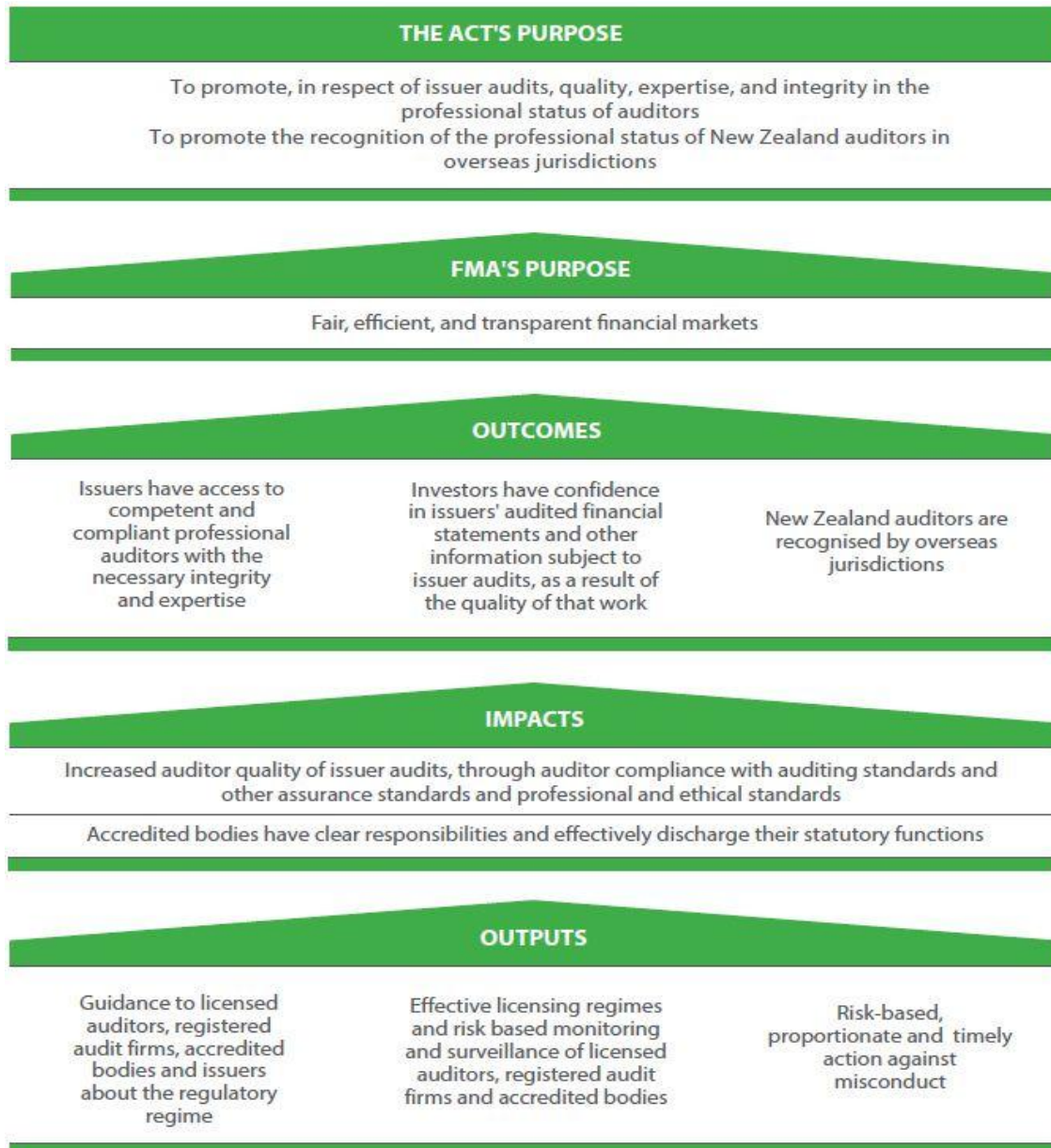
This is our second auditor regulation and oversight plan and is consistent with the plan we published last year. FMA expects the plan to evolve in future years to reflect experience of the new regulatory regime and in particular, to reflect the outcomes of our monitoring of audit firms and accredited bodies, together with any other changes in the audit environment.

This plan will help licensed auditors, registered audit firms and accredited bodies to understand how FMA will approach auditor regulation. It may also be of interest to issuers, investors and their advisers.

Figure one below illustrates our framework for auditor regulation and oversight and sections 2 to 4 explain why each impact is important, and what FMA will focus on to deliver that impact.

¹ www.fma.govt.nz, see Help me Comply/ Auditors

Figure One: FMA’s outcome framework for auditor regulation and oversight 2013-2016



Section 1: What we aim to achieve

The Act regulates auditors of issuers and establishes an independent oversight system in order to:

- promote, in respect of issuer audits, quality, expertise and integrity in the professional status of auditors
- promote the recognition of the professional status of New Zealand auditors in overseas jurisdictions.

Overseas recognition of New Zealand auditors makes it easier for New Zealand companies to list on overseas exchanges and for New Zealand auditors to provide services abroad. It also supports investment by overseas investors into New Zealand.

The Act's purpose is consistent with FMA's main statutory objective, which is to promote and facilitate the development of fair, efficient, and transparent markets. FMA's Statement of Intent sets out the overall outcomes which we will contribute to with other government agencies, co-regulators and market participants. It also sets out our impacts and how these align to the funding provided by Government for FMA to achieve our statutory objectives.

Taking into account the Act's purpose and FMA's overall objective and desired outcomes, through auditor regulation and oversight we seek to contribute to the following outcomes:

- issuers have access to competent and compliant professional auditors with the necessary integrity and expertise
- investors have confidence in issuers' audited financial statements and other information subject to issuer audits², as a result of the quality of that work
- New Zealand auditors are recognised by overseas jurisdictions.

How FMA can contribute to these outcomes is influenced by the structure of the auditor regulation and oversight regime under the Act. Auditors in New Zealand and 'overseas auditors' (who are also regulated in one of the countries prescribed by Regulations³) are regulated through different mechanisms:

	New Zealand	Overseas
Auditor	<ul style="list-style-type: none">• May have an initial transitional licence until May 2014.• Licensed by accredited bodies.• Monitored by accredited bodies, but with quality reviews carried out by, or on behalf of, FMA.	<ul style="list-style-type: none">• May have an initial transitional licence until May 2014.• Licensed by FMA.• Monitored by FMA.• Reliance in some areas on overseas regulator.

² 'issuer audit' is defined in section 6 of the Act and used in this paper with that meaning.

³ The Auditor Regulations 2012 prescribe Australia, countries in the European Union, Hong Kong, Singapore and the United States of America.

Audit firm	<ul style="list-style-type: none"> • May have an initial transitional registration until May 2014 • Registration authorised by accredited bodies. • Monitored by accredited bodies, but FMA responsible for quality reviews of its auditors and audit systems of the firm. 	<ul style="list-style-type: none"> • No transitional arrangements. • Registration authorised by FMA. • Monitored by FMA. • Reliance in some areas on overseas regulator.
Accredited bodies	<ul style="list-style-type: none"> • Accredited and monitored by FMA 	

Whilst some areas of the regime are carried out by FMA directly, significant areas will be delivered through FMA's role in monitoring the effective discharge by accredited bodies of their functions as frontline regulators.

FMA will contribute to the outcomes through our own activities in the period to 30 June 2016 by focusing on the following desired impacts:

- increase audit quality of issuer audits, through auditor compliance with auditing standards, other assurance standards and professional and ethical standards
- accredited bodies have clear responsibilities and effectively discharge their statutory functions.

FMA will achieve these desired impacts by delivering the following outputs:

- guidance to licensed auditors, registered audit firms, accredited bodies and issuers in relation to the regulatory regime
- effective licensing regimes and risk-based monitoring and surveillance of licensed auditors, registered audit firms and accredited bodies
- risk-based, proportionate and timely action against misconduct.

These outputs are aligned to FMA's overall outputs set out in our Statement of Intent 2013-16.

In carrying out our work, we will have regard to the principles that our regulation should not unnecessarily restrict the supply of auditors or impose undue costs on auditors or issuers.

Section 2: Increased audit quality of issuer audits

Introduction

The first impact that FMA aims to achieve is increasing audit quality of issuer audits, through auditor compliance with auditing standards and other assurance standards, as well as professional and ethical standards.

Why this impact is important

Auditing standards, other assurance standards and applicable professional and ethical standards establish requirements and provide guidance on the responsibilities of auditors. They also set out the basic tenets of ethical and professional behaviour such as integrity, independence, competence and working with skill, care and diligence. Compliance with these standards and requirements is a foundation of ensuring audit quality.

Auditors must also comply with other conduct requirements under legislation, such as those set out in the Act.

Achieving compliance is not only about having and following appropriate processes, it is also about the behaviour, attitude and the use of professional judgment and scepticism by auditors and their teams.

What we will focus on to achieve this impact

FMA will deliver this impact through:

- its own direct actions, as described below
- effective discharge by accredited bodies of their statutory functions. FMA monitors accredited bodies, assists them in understanding their responsibilities and sets expectations for their contribution to the regime. Our areas of focus in respect of accredited bodies are set out in section 3 below.

FMA's own direct actions will focus on:

- overseas auditors and audit firms – licensing, monitoring and actions against misconduct
- monitoring of emerging risks
- monitoring the perimeter
- 'quality reviews' of New Zealand audit firms and auditors
- oversight and monitoring of accredited bodies⁴.
- communication about the regime, our work and our expectations.

These focus areas are covered below.

We will carry out our work in line with FMA's overall compliance strategy, as set out in our Statement of Intent 2013-16 and FMA's Compliance Focus for 2013.

⁴ Our areas of focus in respect of accredited bodies and the oversight and monitoring are set out in section 3 of this report

Overseas auditors and audit firms - licensing, monitoring and actions against misconduct

FMA is directly responsible for:

- licensing overseas auditors and authorising registration of overseas audit firms
- monitoring their compliance with the standards and requirements
- taking action against them, when necessary.

The Act's approach to overseas auditors recognises that the auditor is already regulated in their home country. The approach expects FMA to place some reliance on the existing regulator.

We currently have applications for licensing auditors and registration of firms from Australia. FMA has undertaken assessment of the audit regimes in Australia, United Kingdom and the United States of America and we may need to assess and change prescribed minimum standards for additional countries, for example, countries that are part of the European Union, if and when required.

Licensing auditors and registering audit firms

FMA may grant licences to overseas auditors pursuant to Section 12 of the Act or pursuant to the Trans-Tasman Mutual Recognition Act 1997⁵. We may also authorise registration of overseas audit firms pursuant to section 26 of the Act.

At the commencement of the regime, overseas auditors were able to take advantage of a transitional licence, which was required to be registered by 26 June 2012 and expires in May 2014 (29 people have registered for this licence).

FMA expects our licensing work to be concentrated in early 2014. The objective of this work is to ensure that only auditors and audit firms who are capable of complying with the requirements can undertake issuer audits. Our website and 'Application Guide: Licensing and registration of overseas auditors and audit firms' sets out more information about the licensing and registration process and requirements.

Monitoring

FMA has started to develop our profile of overseas auditors and firms as they become known to us through licensing and registration. We will continue to develop this as more firms and auditors seek registration and licensing. FMA uses this information to enhance our approach and to build and maintain our relationships with relevant overseas regulators.

⁵ Guidance on the licensing under the Trans-Tasman Mutual Recognition are available from FMA's website (https://www.fma.govt.nz/media/1235131/application_for_an_overseas_auditor_licence_under_the_trans-tasman_mutual_recognition_act_1997.pdf)



FMA's direct monitoring of overseas auditors and firms will include:

- ensuring auditors are eligible for transitional licences for which they have registered
- reviewing the annual reporting requirements of the licensed auditors, including the review of the audit firms quality control reviews by professional bodies or other regulators
- making appropriate inquiries into any complaints, tips or referrals, including those from overseas regulators
- our issuer disclosure surveillance work, which monitors the compliance of the audited financial statements with the Financial Reporting Act 1993.

Actions against misconduct

FMA expects to use the full range of our regulatory tools in respect to our monitoring and actions taken against overseas auditors and audit firms.

In particular, we have the power to cancel the transitional licence of an overseas auditor if it appears that the person has made false or misleading declarations, no longer satisfies the prescribed minimum standards, or the person has failed to comply with a condition in their licence.

Monitoring of emerging risks


FMA will monitor risks which potentially impact on auditor compliance with auditing and assurance standards and other conduct requirements. The following will be key to monitoring risks:

- discussion with accredited bodies of risks that they have identified
- consideration of the results of monitoring and surveillance by accredited bodies
- considering the outcomes of other compliance and monitoring activities
- the results of the quality reviews carried out on behalf of FMA
- quality review reports received from overseas regulators
- FMA's own work with overseas auditors.

In addition, we will monitor risks by:

- liaising with key stakeholders, including the External Reporting Board and bodies representing issuers and insolvency specialists
- monitoring the economic environment and audit industry trends
- monitoring the experience of audit regulators internationally (including liaison with the Australian Securities and Investments Commission and the International Forum of Independent Audit Regulators)
- considering relevant complaints, tips or referrals
- considering whether there are lessons from any significant company or reporting failures.

We will also monitor the development of financial reporting and auditing and assurance standards and professional standards for auditors in New Zealand and internationally. We will have regular meetings with the External Reporting Board and share information from our review and monitoring activities. We will identify any increased level of compliance risk, which can arise when standards are new.



Where changes in risks are identified, FMA will determine whether action is needed by assessing the potential impact on auditors and their work. If action is needed, the action will be proportionate to the potential impact of the risk. For example, it might be:

- work to further evaluate the risk
- a communication to auditors and accredited bodies
- an adjustment to our risk-based approach or the introduction of a new focus for quality reviews
- discussions with accredited bodies regarding our expectations which may result, for example in adjustments to their monitoring.

Monitoring the perimeter

We will undertake surveillance and focus on any complaints, tips or referrals about auditors or audit firms who are carrying out issuer audits while unlicensed or unregistered. We will make inquiries and take enforcement action if necessary.

FMA will also be monitoring financial statements, offer documents, and accompanying audit reports filed with the Companies Office to ascertain if unlicensed auditors are undertaking issuer audits, or if auditors are not recognising clients as issuers.

We may request information from licenced auditors and registered audit firms directly or through accredited bodies regarding issuer audits.

‘Quality reviews’ of New Zealand audit firms and auditors


Audit firms must have systems, policies and procedures which are necessary to comply with Auditing Standards, Professional and Ethical Standards, Other Assurance Standards and other conduct requirements under legislation⁶. FMA must ensure that a quality review of these systems, policies and procedures is carried out at least every four years for New Zealand registered audit firms (and any firms with licensed auditors and licensed auditors not part of a firm)⁷. FMA will endeavour to keep our review cycle consistent with the European Union (EU) to remain internationally aligned. The review cycle required by the EU is currently three years.

Quality Reviews are the direct responsibility of FMA, although we may delegate this function to an accredited body or any other suitably qualified person (s66). FMA has made the decision to initially delegate this function to NZICA.

However, FMA is responsible for the quality reviews under the delegation and FMA maintains an active role in the quality review function. The quality reviews are carried out in accordance with FMA-approved methodology and the firms and licensed auditors are selected for review according to a programme and schedule approved by FMA. The timing, frequency and selection of the audit files will be determined using a risk-based framework approved by FMA. We will be involved in any key decisions, FMA must approve the issue of the final reports and FMA staff may also attend quality review visits.

⁶ See the prescribed minimum standards for licensed auditors and registered audit firms available from FMA’s website at Help Me Comply / Auditors / Your Obligations.

⁷ See section 65 of the Auditor Regulation Act 2011



FMA's approach is based on the risk that the issuers pose to investors and takes into account the policies and procedures regarding the audit quality in each firm. The quality review programme for 2013-2016 will continue to focus on:

- audit firms that audit entities that are likely to be of significant public interest based on the value of securities issued to the public
- those entities and industries that are more vulnerable to risks arising from existing and emerging market conditions and other higher risk entities, such as finance companies, KiwiSaver schemes and listed companies.

Areas of focus for quality reviews are:

- audit quality control system and supervision
- auditor independence
- audit documentation and evidence
- professional scepticism
- understanding of the issuer and its environment
- the auditor's responsibilities relating to fraud in an audit of financial statements.

We have selected these themes based on reports issued by overseas auditor regulators and our initial findings as a result of the first quality reviews performed as part of the new regime. Each of these focus areas is discussed below.

FMA will perform the quality reviews in compliance with section 68 of the Act, which sets out the minimum requirements of a review.

Audit quality control system and supervision

We will focus on the involvement of the engagement partner and engagement quality control reviewer (EQCR) at all stages of the audit, including audit planning, reviewing key judgments and the conclusions reached. The engagement partner is responsible for audits being performed in accordance with the firm's audit policies.

Auditor independence

We will review compliance with auditor independence requirements, including:

- complying with the auditor rotation requirements, including compliance with the requirement to rotate the EQCR
- complying with independence requirements regarding the provision of non-audit services. We will focus on how providing these services is approved within the firm, reporting to those charged with governance of the issuer and documentation requirements in the financial statements and audit opinions
- investigating possible 'opinion shopping', particularly where an audit firm's views are sought on specific accounting treatments before a decision is made about whether to appoint the auditor.

Audit evidence and documentation

FMA will review whether licensed auditors have obtained appropriate audit evidence to conclude whether issuer financial statements are free of material misstatements. We also review if sufficient audit evidence is obtained to support the audit opinion. We will particularly focus on audit documentation in the following areas:

- going concern
- related party transactions
- subsequent events
- revenue recognition
- key risks areas specific for the individual issuer.

Professional scepticism

FMA expects a level of professional scepticism to be maintained during an audit. Engagement partners, engagement quality control reviewers and staff should maintain questioning minds and obtain sufficient evidence and not be over reliant on management's explanations and representations. Our focus on the use of professional scepticism will be in the following areas:

- significant judgments in relation to accounting estimates and fair value calculations
- management and directors representations regarding going concern
- impairment calculations and recoverability of assets including deferred tax assets
- using emphasis-of-matter opinion as an alternative to issuing a qualified audit opinion
- accepting and continuing client relationships.

Understanding of the issuer and its environment

FMA expects an adequate understanding by the auditor of the business model of the issuer. This will be reflected in the auditors risk assessment, and the auditor's interaction with the audit committee to ensure that key areas of risk are included in the audit strategy and have been properly addressed with sufficient audit procedures.


The auditor's responsibilities relating to fraud in an audit of financial statements

One of the objectives of the auditor is to identify and assess the risks of material misstatement of the financial statements due to fraud, and to obtain sufficient appropriate audit evidence to properly assess this risk. This specifically relates to fraud in revenue recognition and management override of controls.

Quality Review Findings

It is likely that quality reviews will reveal some breaches of relevant audit standards or areas for improvement of practice. Following a quality review, FMA has the power to issue a direction to a firm (or auditor) to amend its systems, policies and procedures. FMA's response will however, depend on the seriousness of the review findings. In many instances, where the audit firm is willing to comply, it may be more efficient for findings to be remedied through constructive dialogue without the need for a formal direction.

In cases where significant findings are noted, there will be follow up review of the firm's remedial action.



Our plan also allows for ad-hoc reviews to be undertaken. FMA will take into account intelligence received about the firm or its audits, including information from accredited bodies (e.g. from authorising registration of the firm) and any relevant results of our own disclosure reviews.

For individual firms, within the three year framework, the risk-based approach may also influence the frequency, depth and timing of their reviews, taking into account factors such as:

- the impact of the firm, for example the number and size of issuer audits undertaken
- intelligence received about the firms or its audits, including information from accredited bodies (e.g. from authorising registration of the firm) and any relevant results of our own disclosure reviews.

FMA will be transparent and make available information on areas of focus and any general messages emerging from our quality reviews on a timely basis. We will liaise closely with accredited bodies to disseminate this information. FMA will also publish a report annually prior to 31 December, on our quality reviews in the year to end of June⁸. The first report is due 31 December 2013. We will also, where appropriate, draw information to the attention of overseas auditors.

Risks vary over time. FMA will update our risk-based approach in subsequent years taking into account new developments and experience gained. We will also take into account the areas of focus and themes identified by overseas auditor regulators.

Education and communication about the regime

FMA will educate issuer auditors, audit firms, accredited bodies and issuers about the regulatory regime and matters arising from it.

FMA will proactively provide information so that auditors can willingly comply with our expectations regarding their compliance with the standards and requirements. This plan forms part of that approach, as do communications such as the publication of general messages emerging from quality reviews of auditors' compliance with auditing and assurance standards.

We will also work with accredited bodies to disseminate information. Information for overseas auditors and firms will be available on our website and will be communicated directly. Information will also be provided to overseas regulators and professional bodies as it is appropriate.

FMA will work with bodies representing issuers and relevant professional bodies to ensure that issuers are aware of the licensing requirements when appointing auditors, and are also aware of our role as the regulator of licensed auditors.

FMA does not provide education about auditing and assurance standards. We may however, comment on education about these standards as part of our monitoring of accredited bodies' competence programmes and promotion, and monitoring and review of the ongoing competence of their members.

^{8 8} See section 73 of the Auditor Regulation Act 2011

Section 3: Accredited bodies have clear responsibilities and effectively discharge their statutory functions

Introduction

The second impact that FMA seeks to achieve is to ensure that accredited bodies have clear responsibilities and effectively discharge their statutory functions.

Why this impact is important

While some areas of the auditor oversight regime are carried out by FMA directly, significant areas will be delivered through our role in monitoring the effective discharge by accredited bodies of their functions as frontline regulators. The New Zealand Institute of Chartered Accountants (NZICA) was deemed to be accredited on the commencement of the Act and in 2012 FMA accredited CPA Australia. We expect accredited bodies to make a significant contribution to the delivery of the desired outcomes of this regime.

The Act's requirements for an accredited body, include maintaining adequate and effective systems and processes for performing the necessary regulatory functions. These functions include:

- maintaining a code of ethics
- licensing of domestic auditors and registering domestic audit firms
- monitoring the population registered or licensed by them
- promoting and monitoring competence
- taking action against misconduct.

These are significant regulatory functions. Accredited bodies effectively discharging their bodies functions is key to the success of the regime. Clearly stated responsibilities and an understanding of FMA's expectations enable accredited bodies to willingly deliver compliant activities.

What we will focus on to achieve this impact

This section includes descriptions of⁹:

- the ways in which FMA expects accredited bodies to contribute to the impacts and outcomes
- how FMA proposes to monitor accredited bodies.

⁹ See section 52 of the Auditor Regulation Act 2011

The contribution of accredited bodies

FMA expects accredited bodies to make a significant contribution to the delivery of the desired outcomes of this regime, and particularly to the impact ‘increased levels of auditor compliance with auditing and assurance standards and other conduct requirements’ (see Section 2) by:

- meeting their obligations both under the Act and the prescribed minimum standards¹⁰ and conditions, on an ongoing basis
- proactively working with and educating auditors to help them to willingly comply with their own obligations under the auditing and assurance standards and other conduct requirements.

FMA has set out its expectations for how an accredited body will organise itself to contribute to the delivery of the prescribed outcome in prescribed minimum standards and obligations for accredited bodies. CPA Australia was assessed against these standards and was granted status as an accredited body on 18 October 2012. NZICA was deemed accredited. However during this plan period NZICA will complete a “shadow accreditation” process. The standards stipulate requirements for systems, policies and processes and the accredited body’s monitoring of its own discharge of its functions.

Additionally, the conditions imposed by FMA on accreditation set expectations for the contribution of accredited bodies, including requirements for reporting and notifying us of matters relating to the accredited body and its monitoring of licensed auditors and registered audit firms.

Licensing

FMA has set out its expectations for licensing undertaken by licensed auditors, by prescribing minimum standards that accredited bodies must apply when licensing New Zealand auditors and audit firms, and the kinds of conditions that we expect auditor licences to include¹¹.

The objective of the licensing regime is to ensure that only auditors and firms who are able and likely to comply with the requirements can undertake issuer audits.

FMA expects accredited bodies to engage with us in formulating their own policy in relation to licensing to ensure the objectives of the prescribed minimum standards are met. We will monitor how an accredited body applies the licensing minimum standards. Given the transitional licensing provisions the focus of this work will be from 2014 onward.

Auditors applying for a licence from 30 June 2014 must have successfully completed a professional course in auditing approved by FMA (in accordance with the prescribed minimum standards). FMA will work with accredited bodies during 2013 to ensure the development of such courses, which we will approve.

¹⁰ The prescribed minimum standards for accredited bodies and kinds of conditions that can be imposed are available from FMA’s website (www.fma.govt.nz/help-me-comply/auditors/who-needs-to-comply/accredited-bodies/)

¹¹ See the prescribed minimum standards for licensed auditors and registered audit firms available from FMA’s website at Help Me Comply / Auditors / Your Obligations. The kinds of conditions which auditor licences may be subject to are set out in the Auditor Regulations 2012.

Monitoring and action against misconduct

Accredited bodies are responsible for monitoring the compliance of both their registered audit firms and licensed auditors on an ongoing basis.

The minimum standards require accredited bodies to be able to identify current or emerging issues in the profession. From this identification of issues we expect accredited bodies to take a risk-based approach to their own monitoring (similar to that described above for FMA's quality reviews). FMA will also liaise with accredited bodies to share information regarding emerging risks for auditors generally and to ensure appropriate consistency of risk views.

FMA expects the accredited bodies monitoring to consider:

- the areas of focus for FMA's quality reviews (set out in Section 2)
- individual ongoing competence requirements
- any other themes or issues that FMA identifies.

FMA will liaise with accredited bodies annually to clarify our expectations for any focus areas for their future monitoring.

We expect an accredited body to use the full range of its regulatory tools in monitoring and enforcing the requirements in respect of auditors and audit firms. FMA will work closely with the accredited bodies to co-ordinate monitoring and enforcement activity to ensure that there are no gaps, that potential duplication is reduced and that appropriate action is taken when an issue is identified.

During 2013 we expect accredited bodies to monitor and take prompt action if it becomes clear that an auditor or audit firm has registered a transitional licence without meeting the necessary criteria, or is providing audit services without having the required licence or registration.

Education and communication about the regime


FMA expects an accredited body to make available information regarding the regime and their approach and expectations, in order to assist auditors and audit firms in applying for licensing and increase the opportunity for voluntary compliance by those licensed auditors and audit firms.

We expect this to include the publication of the results of monitoring and appropriate publication of disciplinary and enforcement action.

FMA's accreditation and monitoring of accredited bodies

Accreditation

NZICA is deemed to be an accredited body from 1 July 2012. Additionally FMA accredited CPA Australia on 18 October 2012.



FMA may be required to consider other applications for accredited body status. Our approach to accreditation is set out on our website¹² and in our document 'Policies and guidance for the assessment of applications to be an accredited body'. This includes information about the conditions that an accreditation may be subject to.

Monitoring

The Act requires an accredited body to provide an annual report to FMA on its performance of its regulatory functions and its relevant systems and processes¹³. FMA must report on the extent to which the relevant systems and processes are adequate and effective annually by 31 December, in respect of the year to 30 June. FMA's first report will be produced prior to 31 December 2013¹⁴.

FMA has discussed with accredited bodies the need for accredited bodies to understand our expectations concerning the annual report.

FMA will take a proactive approach to the assessment of the accredited bodies systems and processes. In addition to considering the report received from each accredited body, as part of its review of an accredited bodies audit regulatory systems, FMA will undertake monitoring visits to assess the compliance with these systems. We will undertake our monitoring work over the report period where possible, rather than waiting until the end of the review period. This should allow the accredited body to adjust and improve its systems and processes during the period if necessary.

The monitoring visits of accredited bodies will focus specifically on the review of the following systems on a sample size basis:

- Maintaining a code of ethics
FMA will review:
 - compliance with maintaining a code of ethics by reviewing the outcomes of practice reviews performed by accredited bodies for their members
 - complaint process implemented by the accredited body.In addition the quality reviews contain specific procedures for confirming the compliance with the code of ethics.
- Monitoring
FMA will review accredited bodies compliance with their review programme and manual detailing the monitoring activities it undertakes, considered by FMA as part of the accreditation and shadow accreditation process.
- Licensing of domestic auditors and registering domestic audit firms
FMA will review newly issued and renewed licenses for compliance with the minimum standards set by ourselves.
- Action against misconduct
FMA will review accredited bodies' processes for responding to complaints and other issues as noted through the practice reviews and our quality reviews.

¹² 'Policies and guidance for the assessment of applications to be an accredited body' are available from FMA's website (www.fma.govt.nz/help-me-comply/auditors/who-needs-to-comply/accredited-bodies/)

¹³ See section 52 of the Auditor Regulation Act 2011

¹⁴ See section 55 of the Auditor Regulation Act 2011

FMA will liaise with accredited bodies on an ongoing basis, in respect to any reports or notifications made by the accredited body, or where appropriate, to share intelligence provided to FMA.

If FMA identifies any weaknesses or areas for improvement within the accredited body, we expect to discuss these in a timely fashion with the accredited body. FMA has the power to issue a direction requiring an accredited body to amend its systems and processes. However, we expect in the majority of instances it will be more effective for any issues identified to be remedied through constructive dialogue between ourselves and the accredited body, with any appropriate remedial action being taken without the need for a formal process.

Section 4: How FMA will measure the impacts

FMA sets out how we will measure our performance against our overall impacts, and how we will use government funding to achieve our impacts, in our Statement of Intent 2013-16.


This Statement of Intent includes the following measures which are directly relevant to our auditor regulation and oversight role.

Measure	2013/14	2014/15	2015/16
Percentage of frontline regulators that take appropriate corrective action as requested by FMA following a compliance review.	100%	100%	100%
Percentage of auditors who are required to take corrective action as requested by FMA following compliance review.	Target to be established dependent on 2012/13 results.	Target to be established dependent on 2013/14 results.	Target to be established dependent on 2014/15 results.

We will consider the role of accredited bodies to be effective if there has been no evidence of substantive issues in the market relating to their performance.

In addition, FMA's auditor regulation and oversight work contributes towards the following more general measure in our Statement of Intent:

Measure	2013/14	2014/15	2015/16
Percentage of offer documents and financial statement reviewed that substantially meet expectations on FMA guidance.	Target to be established dependent on 2012/13 results.	Target to be established dependent on 2013/14 results.	Target to be established dependent on 2014/15 results.



The impacts in this plan are aligned with FMA’s overall desired impacts. We do not receive separate funding for our work on auditor regulation and oversight and therefore do not specifically publish separate impact measures for this work.

This plan discusses the outputs that FMA will deliver to achieve each of the desired impacts for auditor regulation and oversight. Work in respect of these outputs for the auditor regulation and oversight regime will contribute to the delivery of a number of the forecast standards which are the measures in our overall Statement of Service Performance for 2013/14.



