

# Proposed amendments to the Auditor Regulation Act (Prescribed Minimum Standards and Conditions for Licensed Auditors and Registered Audit Firms) Notice 2012

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This paper seeks to gather views from business professionals involved in auditing on the proposed amendments to the Auditor Regulation Act (Prescribed Minimum Standards and Conditions for Licensed Auditors and Registered Audit Firms) Notice 2012

## About this consultation:

This consultation is for: licensed auditors and registered audit firms.

It aims to: seek views from licensed auditors and registered audit firms on the proposed changes to the Auditor Regulation Act (Prescribed Minimum Standards and Conditions for Licensed Auditors and Registered Firms) Notice 2012.



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### Consultation paper background

The Financial Markets Authority (FMA) has responsibilities under the Auditor Regulation Act 2011 (the Act) to oversee the regulation of licensed auditors and registered audit firms undertaking FMC audits.

Section 32 of the Act allows us to set regulations on:

- licensing of auditors and registration of audit firms
- transitional requirements
- ongoing competence requirements for licensees, and
- requirements for accredited bodies.

We issued the Auditor Regulation Act (Prescribed Minimum Standards and Conditions for Licensed Auditors and Registered Audit Firms) Notice 2012 (Notice) on 18 April 2012 which sets out:

- a) minimum licensing standards for a person carrying out FMC audits
- b) the conditions under which such licences must, and may, be subjected to
- c) the ongoing competence that New Zealand-based licensed auditors need to comply with
- d) minimum standards an audit firm must meet to be registered, and
- e) the criteria individuals and firms must meet to be eligible for the transitional arrangements of the Act.

Section 33 to 36 of the Act provide guidance as to the policy objectives the FMA must be conscious of in prescribing standards, and the process for prescribing standards. Of particular note is section 35, which requires that the FMA, in prescribing matters under section 32, must take into account the purposes of the Act. They include, to promote quality and expertise in audit engagements, to promote the recognition of the New Zealand audit profession internationally, as well as to ensure that the regulatory regime does not cause undue costs to auditors or their clients or create other unreasonable restrictions to entering the audit profession.

We propose to amend the Notice to take into account changes introduced by the Auditor Regulation Amendment Act (Amendment Act), which came into effect on 1 July 2015.

We are required to consult with people who represent the views of the auditing profession, and any other organisations or groups that will be substantially affected by the proposals, before we make changes to the Notice.



## Proposed amendments

We propose to make minor changes to some terminology in the Notice as a result of the Amendment Act. We propose to amend references to 'issuers' and 'issuer audits' with references to 'FMC reporting entity' and 'FMC audits'.

We also propose to make changes, pursuant to the amendment of section 25 of the Act, to take into effect limited partnerships and companies which may now be registered as audit firms.

Please refer to Appendix 1 for an outline of the proposed amendments to the Notice.

## Comments sought

We would appreciate your comments on the proposals. We are interested to know whether you agree or disagree with this paper's proposals, and the reasons for your views. We are also happy to receive, and will consider, any suggestions of alternative or additional requirements you believe are appropriate.

Please contact us with your comments by 24 September, 2015. You can provide your comments by email to us at [consultation@fma.govt.nz](mailto:consultation@fma.govt.nz) with this subject line: 'Proposed amendments to the ARA (Prescribed Minimum Standards and Conditions for Licensed Auditors and Registered Audit Firms: [Your entity name]' If you have any questions contact Jacco Moison, Senior Adviser on 09 300 0406.

Following this consultation period, we will consider all submissions and publish the final prescribed standards. We intend to consult, finalise and gazette the Notice by October 2015.

Submissions will be subject to the Official Information Act 1982. We may also make submissions available on our website, or draw attention to submissions in internal or external reports. If you would like us to withhold any commercially sensitive, confidential or proprietary information you submitted, please let us know. Any request to withhold information will be considered according to the Official Information Act.



## Appendix — Proposed amendments to the Notice

Clause	Original Notice	Proposed amendments
2 Interpretation	<p><b>Application for renewal</b> means an application for a licence by a person who is currently a licensed auditor or whose auditor licence has expired if the application was made to the accredited body within three months after the expiry of that person’s most recent licence but does not include a licenced applied for while a person holds a transitional licence.</p>	<p><b>Application for renewal</b> means an application for a licence by a person who is currently a licensed auditor or whose auditor licence has expired if the application was made to the accredited body within three months after the expiry of that person’s most recent licence.</p>
	<p><b>Approved practising certificate</b> means a practising certificate, of a kind acceptable to the FMA, issued by an accredited body under its rules which authorises the holder to provide professional accounting or auditing services to the public, and includes a certificate of public practice issued by NZICA.</p>	<p><b>Approved practising certificate</b> means a practising certificate, of a kind acceptable to the FMA, issued by an accredited body under its rules which authorises the holder to provide professional accounting or auditing services to the public.</p>
	<p><b>NZICA</b> means the New Zealand Institute of Chartered Accountants.</p>	<p>Definition of <b>NZICA</b> removed.</p>
		<p>Inserted ‘<b>NZ IFRS</b>’.</p> <p><b>NZ IFRS</b> means the New Zealand equivalent of the International Financial Reporting Standards.</p>



Appendix continued — Proposed amendments to the Notice

Clause	Original Notice	Proposed amendments
<p><b>2 Interpretation</b></p>	<p><b>PES1</b> means Professional and Ethical Standard 1 – Ethical Standards for Assurance Providers issued under the Financial Reporting Act 1993.</p> <p><b>PES2</b> means Professional and Ethical Standard 2 – Independence in Assurance Engagements issued under the Financial Reporting Act 1993.</p> <p><b>PES3</b> means Professional and Ethical Standard 3 – Quality Control issued under the Financial Reporting Act 1993.</p>	<p>PES1, PES2, and PES3 replaced with Professional and Ethical Standards.</p> <p><b>Professional and Ethical Standards</b> mean the Professional and Ethical Standards issued by the External Reporting Board.</p>
<p><b>3 Prescribed minimum standards for licensed auditors</b></p>	<p>Deleted Clauses 3(1)(b) and (c):</p> <p>(b) where NZICA issues a licence, the person has attained membership of NZCIA as a chartered accountant.</p> <p>(c) where another accredited body issues a licence, the person has attained membership of that other accredited body that’s equivalent to the NZICA’s chartered accountant status.</p> <p>Deleted Clause 3(3)(c):</p> <p>(c) either:</p> <p>(i) has received a transitional licence and makes an application before the expiry of that transitional licence; or</p> <p>(ii) makes an application within six months of the commencement of the Act.</p>	<p>Replaced with:</p> <p>(b) the person is a full member of an accredited body.</p>
<p><b>4 Prescribed minimum standards for overseas auditors</b></p>	<p>Clause 4(a)(b)(iii):</p> <p>(iii) be a partner or employee of a firm registered with the Professional Oversight Board of the United Kingdom.</p>	<p>Amended:</p> <p>(iii) be a partner or employee of a firm registered by a supervisory body recognised by the Financial Reporting Council of the United Kingdom.</p>



Appendix continued — Proposed amendments to the Notice

Clause	Original Notice	Proposed amendments
<p><b>7 Prescribed requirements for ongoing competence</b></p>	<p>Clause 7(1)(a):</p> <p>(a) Licensed auditors must complete at least 120 hours of training and education in every rolling three-year period, with such training or education to include at least 20 hours completed in every year (together, the required training).</p>	<p>Replaced with:</p> <p>(a) When the licensed auditor is a member of an accredited body that is required to meet the International Federation Accountants requirements, the licensed auditor should comply with the most recent International Education Standards (professional competence for engagement partners responsible or audits of financial statements as set by the International Accounting Education Standards Board).</p>
	<p>Clause 7(1)(b):</p> <p>(b) At least 50% of the required training must be structured training.</p>	<p>Replaced with:</p> <p>(b) For licensed auditors who are not required to comply with the requirements of 7(1)(a):</p> <p>(i) complete at least 120 hours of training and education in every rolling three-year period, with such training or education to include at least 20 hours completed in every year (together the <b>required training</b>); and</p> <p>(a) at least 50% of the required training must be structured training; and</p> <p>(b) of the structured training, at least 30% must relate to auditing, and at least 30% must relate to financial reporting.</p> <p>(ii) all required training must be relevant to the auditor’s professional activities.</p>



Appendix continued — Proposed amendments to the Notice

clause	original Notice	proposed amendments
<b>8 Prescribed minimum standards for registration as a registered audit firm</b>	Deleted clause 8(1)(a):  (a) At least 75% of all partners of an audit firm must be members of an appropriate professional body.	Replaced with:  (a) In the instance of a partnership, the majority of partners of an audit firm must be members of an approved professional accounting body and hold a practising certificate issued by that professional accounting body.
	Deleted clause 8(1)(b):  (b) 50% of partners of an audit firm must be members of approved professional accounting body and hold a practising certificate issued by that professional accounting body.	Replaced with:  (b) In the instance of a company, the company must comply with the requirements of 5A of the Auditor Regulations 2012.
	Clause 8(1)(c):  (c) All partners of an audit firm must be fit and proper persons, as assessed by the relevant authority.	Amended:  (c) All partners and directors of an audit firm must be fit and proper persons, as assessed by the relevant authority.
	Clause 8(1)(f):  (f) key decision and judgments involved in an issuer audit must be subject to engagement quality control review by another licensed auditor.	Amended:  (f) key decisions and judgments involved in an FMC audit must be subject to engagement quality control review by another licensed auditor in a timely manner.





Appendix continued — Proposed amendments to the Notice

clause	original Notice	proposed amendments
9 Transitional provisions – auditors and overseas auditors	Clause 9 removed.	
10 Transitional provisions – audit firms	Clause 10 removed.	
Others	‘Issuer’ and ‘issuer audit’.	Replaced with ‘FMC reporting entity’ and ‘FMC audits’.
	‘Financial Reporting Act 1993’.	Replaced with ‘Financial Reporting Act 2013’.

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