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Director and Board Guide to Quality Audit and Assurance Practices

This guide is for directors and boards of Financial Markets Conduct (FMC) reporting entities, including managers of registered schemes. It discusses how directors and boards can contribute to the quality of audit and other assurance engagements while fulfilling their duties and obligations under relevant legislation.

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Introduction

The purpose of this guide is to assist directors with getting maximum benefit from the audit process, for the entity and investors.

Investor confidence is a key factor in maintaining fair, efficient and transparent financial markets. For investors to make confident and informed decisions, they require access to credible and reliable financial reporting and other information.

Audits of FMC reporting entities provide a check that financial statements are presented fairly in all material respects in accordance with the New Zealand equivalent of International Financial Reporting Standards (NZ IFRS). Other assurance engagements required by the Financial Markets Conduct Act 2013 (FMC Act) enhance the confidence in the entities' systems and processes and or including specific assurance over aspects of climate statements.

Key audit responsibilities for FMC reporting entities under the FMC Act include:

- producing financial statements that comply with generally accepted accounting practice
- ensuring registers of regulated products kept by, or on behalf of, the issuer are in accordance with the prescribed requirements.

Directors have specific duties in relation to these requirements; if these duties are not met, every director of the company commits an offence and is liable on conviction to the penalty set out in the Companies Act 1993¹. Where an entity has an audit committee, this does not relieve the other directors of responsibility.

Auditors can support directors in fulfilling their duties under the FMC Act by performing a thorough audit and pointing out any material deficiencies.

The quality of an audit or assurance engagement may be influenced by factors including (but not limited to):

- quality and timeliness of relevant information provided by the entity
- resourcing at the entity to provide the necessary information for the audit
- level of director involvement and oversight, including the discussion of key risk to the entity
- response by management and directors to issues raised by the practitioner
- fee to be paid to the practitioner
- time available for the audit team from delivery of information to reporting deadline
- experience and expertise of individuals involved both at the entity and audit firm
- level of involvement of the engagement partner and senior team members
- time spent by the engagement quality review (EQR) partner
- extent of the auditor's independence from the entity.

¹ 90 and 207G of Companies Act 1993 and 534 1 (ca) of the FMC Act

The FMA's role

The Financial Markets Authority – Te Mana Tātai Hokohoko (FMA) is responsible for overseeing auditors of FMC reporting entities in accordance with the Auditor Regulation Act 2011. This relates to specific audit engagements, such as financial statement audits and other audits required under the FMC Act.

As part of this we are required to perform audit quality reviews of each registered audit firm. Where appropriate, we perform follow-up reviews to ensure firms have effectively remediated any significant findings. In some instances, we may review the performance of auditors on other assurance engagements, including climate-related disclosure² and AML/CFT³ assurance, but this is not a requirement under the Auditor Regulation Act.

² 461ZG of the FMC Act

³ Section 59 (2) of the AML/CFT Act 2009

Appointing an auditor

Selecting an appropriate audit firm can help ensure high-quality outcomes for the entity and its investors.

Audits of FMC reporting entities must be performed by a qualified FMC (licensed) auditor⁴, who can be part of a registered audit firm or a sole practitioner. You can search the [Auditors Register](#) for a list of registered firms and their licensed auditors, and auditors who operate as sole practitioners.

Responsibilities

An FMC reporting entity must, at its annual general meeting, appoint a qualified FMC (licensed) auditor to audit the financial statements or group financial statements for that accounting period. This auditor holds office until the conclusion of the next annual meeting where appointment of the auditor is covered. The board may replace the auditor, or fill the vacancy if an auditor resigns between annual meetings⁵. If the entity is not a New Zealand incorporated company, other rules may apply to the appointment of the qualified FMC (licensed) auditor.

Appointment process

When appointing or re-appointing an auditor, the board (or a board committee), supported by management, should consider all relevant factors including (but not limited to):

- ensuring the appointment process is overseen independently of management, preferably by non-executive directors
- agreeing a plan to ensure a smooth transition when changing audit firms
- long-term audit planning and rotation, including requirements for non-assurance services, to keep options open for future auditor appointments
- where practical communicate with and seeking input from major investors as they are the ultimate clients of the audit⁶
- whether the audit firm should be appointed on a fixed term period (for example 10 years) or set fixed evaluation periods for reappointment
- checking if the auditor is subject to any specific conditions on their licence that may prohibit appointment to the audit.

Questions to consider in the tender process

Appointing or re-appointing an appropriate audit firm or individual licensed auditor requires asking specific questions. When seeking proposals as part of an appointment process, consider asking the following in tender documents:

⁴ Section 461D and 461E of the FMC Act 2013

⁵ Companies Act 1993 207P -207V

⁶ Communication could include the timing of the tender process and which firms are being considered, factors that led to the appointment of the audit firm and allow questions from investors during the AGM.

- Does the firm or auditor have specialist knowledge, experience or expertise in specific industries and sectors that are relevant to the audit and/or the company?
- How does the auditor use technology, including artificial intelligence, while maintaining the confidentiality of information obtained, and how does this use of technology enhance audit quality?
- How long will be spent on the audit by senior staff and engagement leaders?
- What will be the extent of onsite presence during the audit by the engagement leader and senior staff?
- Is the firm using any shared-service centres or centres of excellence and how do these services contribute to audit quality?
- How does the firm or auditor self-evaluate their quality management systems?
- Are there any pending regulatory findings and what steps is the firm taking to address findings or observations by regulators?
- For the purpose of audit continuity what are the firm's recent staff attrition rates?
- What mandatory training does the firm have for audit staff?
- What is the experience of the engagement quality reviewer⁷ involved in the audit?
- If applicable, how does the audit firm manage the oversight of other auditors in a group audit?

Collecting this information will provide insights into the audit team's experience as well as the processes and systems that contribute to audit quality. These insights can then be compared across candidates to make an informed decision about the best audit firm fit.

Overseas auditors

FMC reporting entities can appoint a New Zealand-based auditor or an overseas auditor as long as they are licensed. Overseas auditors are not always subject to the same regulatory oversight as New Zealand-based auditors, for example FMA's audit quality reviews. When appointing an overseas-based auditor, we recommend asking the following questions:

- Is the overseas audit firm part of an audit firm that is registered under the Auditor Regulation Act 2011?
- What experience do they have with New Zealand laws and tax requirements, and what arrangements will be put in place to engage local expertise?
- Will the engagement quality reviewer appointed for your audit be a New Zealand-licensed auditor?
- How frequently are they subject to audit quality review by a regulator or professional body in their home jurisdiction?
- Do they have adequate indemnity insurance that covers New Zealand audits?

⁷ This is another licensed auditor appointed by the lead audit partner to perform an objective evaluation of the significant judgements made by the engagement team and the conclusions reached thereon, completed on or before the date of the engagement report. This appointment is required for each FMC audit.

Collecting this information will show whether the auditors have adequate New Zealand experience to identify non-compliance issues and whether their work is overseen to the same standard as that of New Zealand auditors.

Fees paid to the auditor

Fees are relevant to any decision to appoint an auditor. The cost should be carefully considered against the quality of service provided. Directors and/or the audit committee should negotiate the audit fee. Directors and boards need to take responsibility for this; it should not be delegated to management, although input can be sought from them.

If the audit fee is well below the market rate, this can undermine the level of trust and confidence investors have in the audit. We recommend entities select their auditor principally by considering the responses of the firm to questions asked during the tendering and appointment process and consider the audit fee only during the final stages of the process.

When faced with financial difficulties, we urge directors and boards to be cautious about going for the cheapest audit or putting undue fee pressure on the incumbent auditor. A lower fee can be a false economy if it compromises the assurance value of the audit, as this will increase risks for directors and investors.

Independence

Auditors are required to form an opinion on whether the financial statements fairly present, in all material respects, the entity's financial position, financial performance and its cash flows in accordance with NZ IFRS.

A lack of auditor's independence can diminish investor and board confidence in the audit and the quality of the entity's financial statements. Directors and boards should assess an audit firm's independence at the time of appointment and on an ongoing basis.

Directors and boards should also think carefully before allowing the audit firm to provide non-assurance services, to avoid undermining the audit firm's independence. Entities should have a board-approved policy for managing non-assurance services and the long-standing association that includes reporting to the board on matters as they arise.

Using an auditor for non-assurance services

The Professional and Ethical Standards for auditors⁸ set specific requirements for auditor independence for FMC audits with higher levels of public accountability. When an audit firm provides a non-assurance service to an audit client, there is a risk that the firm will later need to audit its own work. This is known as a 'self-review threat' – in other words, checking your own work. It is important that directors and boards have a good understanding of any self-review threat and are proactively considering this in their oversight of the firm undertaking the audit.

The following could assist when appointing your audit firm for any non-assurance services:

- Having an internal policy for approving the use of your audit firm for non-assurance services. This policy could cover:

⁸ Professional And Ethical Standard 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) (PES 1)

- an overview of prohibited services for auditors of FMC reporting entities with higher public accountability as set out in the Professional and Ethical Standards (PES 1)
 - mechanism to oversee and approve services and fees provided by the audit firm
 - the type of services not to be provided due to their threats to auditor independence
 - consideration of the expected public perception of these services being provided by the auditor
 - when it is appropriate to get another service provider to carry out non-assurance services
 - The level of fees paid for the audit and those for services other than audit and the relative size of both elements.
- Ask management to seek a detailed assessment from the audit firm that outlines possible threats to the firm's independence from non-assurance services and how it would mitigate threats, especially in complex and subjective areas, and provide that information to the board or relevant board committee.
 - Have the auditor, in the audit plan, audit committee report or other reporting, confirm⁹ independence taking in to account all other services performed by their firm, including non-assurance services. This should include details of how they implemented safeguards to mitigate threats and if they maintained their independence throughout the audit.
 - Create sufficient distance between the directors/board, management and the audit team, to help maintain independence and objectivity. Examples could be a board charter or delegation policy that specifically defines the board responsibilities, and which elements are delegated to management.
 - Provide an opportunity for the directors/board to challenge the audit team where threats are identified, and question if the safeguards provided are enough to maintain independence.
 - In the entity's annual report or corporate governance statement disclose:
 - internal, board-agreed policies for ensuring auditor independence
 - any processes in place to evaluate the effectiveness of the non-assurance engagements
 - any identified threats to auditor independence (including any non-assurance services provided by the audit firm) and how they were mitigated or effectively managed.
 - Ensure the disclosures in the entity's financial statements¹⁰ match the audit and non-audit services provided during the year and that the audit report discloses the correct relationships other than that of the auditor and any interests the auditor has in the entity. This should cover any other services provided during the financial year and after the financial year end but before the audit opinion was signed.
 - Any other matters that may affect the independence and objectivity of the auditor.

Long association

Although there is mandatory rotation of audit and engagement quality review partners¹¹ for FMC audits with higher public accountability, New Zealand has no mandatory rotation of audit firms to avoid a long or overly familiar relationship with clients. However, when an audit firm has been with a company for a long time,

⁹ Required communication for FMC reporting entities with higher public accountability: ISA (NZ) 260 NZ 17.1

¹⁰ As required by FRS 44 8.1

¹¹ Engagement lead audit partners must rotate every seven years (or five years for most of the NZX-listed markets).

there is a danger of getting get too familiar and compromising independence. Therefore, the board should periodically assess this relationship as part of the audit firm reappointment process. Some overseas jurisdictions have mandatory audit firm rotation at least once every 10 years. We consider this frequency for assessing the relationship to be good practice, along with annual disclosure of audit firm tenure.

It should also be noted that there are a limited number of audit firms able to undertake this work, and a smaller subset when sector and industry knowledge, expertise and where relevant geographical representation is considered. This needs to be taken into account when considering audit firm rotation.

To preserve appropriate independence and professional scepticism, directors and boards should carefully consider whether the relationship between the entity and audit firm and/or key audit staff has compromised auditor independence and therefore the ability to challenge the entity's staff by reason of tenure. This helps provide directors and boards with a degree of confidence about financial statements and wider reporting.

The audit process

The audit process involves close cooperation between the audit firm and senior management of the entity. Directors, boards and/or the audit committee will generally keep in regular contact with audit teams throughout the process, at an appropriate level consistent with their governance duties and responsibilities.

Entity systems and processes

An entity must have its own systems, processes and controls, and sufficient resources to produce compliant financial statements. Directors and boards should have an ongoing oversight of these.

Auditors can provide entities with feedback about where internal systems, processes and controls could be improved. However, an entity and its directors must not solely rely on the auditor to ensure the financial statements comply with GAAP. This would undermine the objective of an audit, which is to provide independent assurance. Directors should consider whether they would have confidence in the entity's financial reporting without the audit and if not, what internal processes should be improved.

Directors should ensure the entity's finance functions are sufficiently resourced with the appropriate level of experience and knowledge, and that the financial statements are supported by appropriate accounting records. This includes papers that set out the accounting treatments chosen by the entity and any assumptions and judgements made by directors. We recommend that management document instances where they determined disclosure not to be material. This helps directors and the board sign off financial and other statements. More information about accounting records can be found in our [Guidance and expectations for keeping proper accounting records](#).

Role of the board and audit committees

The active governance level involvement of directors and the board (including any board committees) during the audit can improve its overall quality. A good facilitation and oversight process includes the following.

Directors and the board take steps to ensure management:

- plans the financial reporting process well
- provides all relevant information in a timely manner
- discusses with the auditor the planned scope and timing of the audit, along with any significant risks identified and the agreed approach to managing those risks, and confirms this in writing
- has sufficient knowledge and experience in financial reporting, including using an accounting specialist where needed for complex and technical accounting matters
- provides and discusses key papers with the directors, including any assessment of going concern or business acquisitions and impairment and valuation models, before sharing this information with the auditor.

Directors and boards (and any board committees) take steps to ensure:

- the auditor is given the opportunity to attend any of audit committee meetings during the year
- robust discussions are held with the auditor before the start of the audit about the risks of fraud and management override of controls. This should include discussion (ideally without relevant management present) on any type of incentives offered to key management personnel that may contribute to these risks
- any opportunities to improve these controls are identified and actioned by management even if the auditor does not intend to rely on the internal controls
- regular meetings are held with the auditor during the audit process without management being present so any concerns or disagreements with management, and opportunities for improvement, can be raised
- they engage early on key audit matters identified by the auditor and have robust discussions with the auditor about any related procedures performed by the audit team
- they discuss the auditor's management letter (which will set out any areas for improvement of the entity's policies and processes) with both the auditor and management and ensure management addresses the matters raised in the letter in a timely manner
- there is a channel for the audit firm to discuss differences of opinion with management directly with the chair of the audit committee or board members
- the audit plan and audit committee report is received on a timely basis and sets out all key issues identified by the auditors, and is discussed in detail as a board
- the auditors are applying sufficient professional scepticism, and challenging the key judgements and assumptions used in accounting estimates and treatments by seeking support or explanation from management when discussing critical accounting matters or areas of judgement
- where the entity has an audit and risk committee, key outcomes of the audit, including the audit committee report, are still shared and discussed with the entire board
- It ensures the information that is included in the written representations is complete and accurate for the matters set out by the auditors.

Assessing the auditor's performance

Directors, boards and audit committees should evaluate their auditor's performance regularly. If clear expectations and policies are in place with the audit firm at the beginning of the audit process, the following questions can help with that evaluation:

- How did the auditor confirm their independence?
- How did the auditor demonstrate their understanding of the entity, and the key areas of risk related to the financial statements?
- How did the auditor describe the procedures they performed to address these risks?
- Did the auditor communicate key issues/observations to the board in a timely manner?
- Were senior audit team members and partners sufficiently involved in the audit?
- Did the auditor's letter to management adequately address the risks, conclusions and audit work performed?

- Were any identified issues appropriately discussed and resolved?
- Did the firm proactively discuss the observations of regulatory and internal file reviews, and how did they address any observations?

If any audit quality concerns cannot be resolved satisfactorily with the auditor, the directors should raise these with the entity's full board, and senior leadership of the audit firm. Please seek the FMA's advice where appropriate, including raising any concerns you may have about the audit¹².

¹² Directors that are a member of a professional accounting body should ensure compliance with the code of ethics which may have certain reporting obligations

Other assurance engagements

Other assurance engagements that can be performed by an auditor or other assurance practitioner covering:

- financial product registers¹³
- greenhouse gas emissions in climate statements¹⁴
- custodial services¹⁵
- derivatives, investor money or property¹⁶
- an AML risk assessment and AML/CFT programme¹⁷.

Selecting an assurance practitioner

Selecting an assurance practitioner will involve the consideration of some different factors to those used when selecting an auditor of financial statements. This does not have to be the auditor of the entities financial statement and can also be an assurance practitioner that is not an auditor. If a licensed auditor or registered audit firm is required, the entity can also select a different individual or firm to the auditor of the entity's financial statements.

The following questions may be relevant for directors and boards (and relevant board committee) to ask when selecting an assurance practitioner:

- What qualifications and expertise are relevant to the engagement?
- Does the practitioner have sufficient policies in place to safeguard independence requirements relevant to this assurance engagement?
- What professional standards are relevant to the engagement?
- Is the assurance practitioner a member of a relevant professional body or organisation and if so, does this provide oversight of work quality and a disciplinary process for misconduct?
- Does the assurance practitioner have any quality management processes in place, such as regular independent reviews of their work?
- Does the practitioner have an applicable code of ethics?

¹³ Section 218 of FMC Act 2013

¹⁴ Section 461ZH FMC Act 2013 (from 27 October 2024)

¹⁵ Section 87 and 229U of FMC Regulations 2014

¹⁶ Section 248 of FMC Regulations 2014

¹⁷ Section 59, 59A and B of the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 (AML/CFT Act)

Specific independence requirements

For AML reporting entities, the law requires audits to be carried out by an independent person who is appropriately qualified.¹⁸ AML auditors must not have been involved in the establishment, implementation or maintenance of the reporting entity's AML/CFT programme or undertaken the reporting entity's AML risk assessment.¹⁹

Where an entity's financial statement auditor performs other assurance engagements, the same independence requirements apply across firm for those other assurance engagements.

If an assurance practitioner is not the financial statement auditor but is a member of a professional accounting body, the requirements in the Professional and Ethical Standards for other assurance engagements (PES 1) will apply.

For assurance engagements over greenhouse gas emissions disclosures, the ethical and independence requirements are set out in part 5 of PES 1²⁰ and are applicable for auditors and other assurance practitioners.

Directors should make enquiries with their assurance practitioners as to what independence rules are applicable for the specific services they provide.

Assurance process

Other assurance processes involve key interactions between the assurance practitioner and specialist staff within the entity. The scope of the engagement will determine who is involved; it will not necessarily be led by the entity's finance team.

To encourage a robust assurance process, directors and boards (and any relevant board committee) could consider the following:

- Ask management to provide an assurance plan that ensures the assurance practitioner is engaged in a timely manner and receives quality information. This should include a robust overview of the entity's systems and processes that cover the information subject to assurance. Directors and boards should oversee these processes at an appropriate governance level. This includes steps to ensure the assurance practitioner receives all information in a timely manner.
- Ensure they are available during the assurance process if the assurance practitioner would like to discuss any matters and provide the opportunity to meet the assurance provider without management present and without any minutes of discussions being shared with management.
- Where it is consistent with the governance oversight role, have robust discussions with the assurance provider about risks and challenges of the engagement ahead of the field work. This includes identifying any risks of management override as part of the process design.
- Work with management to ensure they have sufficient knowledge and experience and involve an external specialist where additional support is needed.
- Discuss governance-related matters raised in the draft assurance report provided by the assurance practitioner and ask if processes and procedures could be improved following the engagement.

¹⁸ Section 59B (1) of the AML/CFT Act 2009

¹⁹ Section 59B (3) of the AML/CFT Act 2009

²⁰ The requirements are transitioning from New Zealand Standard on Assurance Engagements (NZ SAE 1), from 15 December 2026 they are covered by PES1.

