

# Auditor regulation and oversight plan

June 2015

For the three years ending  
30 June 2018

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# Overview

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## Auditor regulation

Investor confidence is fundamental to successful financial markets and depends on investor access to credible and reliable financial information to make investment decisions. Audits of FMC reporting entities financial statements are designed to enhance investor confidence. The audits help ensure these statements comply with the regulatory financial reporting standards and give a true and fair view of the FMC reporting entity's financial position. Other assurance engagements, such as reviews under the Securities Act 1978, have similar aims.

The Auditor Regulation Act 2011 (the Act) regulates auditors and audit firms performing FMC audits.

The Act regulates auditors of FMC reporting entities and establishes an independent oversight system to:

- promote the audit quality, expertise, integrity and professional standard of those licensed auditors
- promote the professional standing and recognition of New Zealand auditors overseas.

Check our website<sup>1</sup> for detailed information on the regulation and oversight regime governing auditors of FMC reporting entities.

## The FMA's regulation and oversight plan

The Financial Markets Authority (the FMA) needs to publish an Auditor Regulation and Oversight plan by 30 June each year. The plan covers a three-year period. Our plan for the next three years to 30 June 2018 covers:

- what we aim to achieve
- why each objective is important
- what we will focus on
- how we will measure these objectives.

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<sup>1</sup> See <https://www.fma.govt.nz/compliance/role/auditors/>

## Section 1: What we aim to achieve

The FMA’s main statutory objective is to promote and encourage the development of fair, efficient, and transparent financial markets. Our *Strategic Risk Outlook* and *Statement of Intent* sets out our strategic direction and the overall objectives we hope to achieve. To achieve our objectives, we collaborate with other government agencies, co-regulators, and businesses and professionals. One of the FMA’s objectives is to raise the stature of New Zealand auditors overseas. This will make it easier for New Zealand companies to list on overseas exchanges and provide services abroad. It also supports investment by overseas investors into New Zealand.

We aim to achieve the following objectives through auditor regulation and oversight:

- provide FMC reporting entities with access to a pool of competent and compliant professional auditors with the necessary integrity and expertise
- give investors confidence in the quality of FMC reporting entities, their audited financial statements and other information subjected to FMC audits<sup>2</sup>
- give New Zealand auditors recognition in overseas jurisdictions.

The FMA regulates auditors in New Zealand and ‘overseas auditors’<sup>3</sup> using different mechanisms.

	New Zealand	Overseas
<b>auditor</b>	<ul style="list-style-type: none"> <li>• licensed by accredited bodies<sup>4</sup></li> <li>• monitored by accredited bodies, but with quality reviews carried out by, or on behalf of, the FMA.</li> </ul>	<ul style="list-style-type: none"> <li>• licensed by the FMA</li> <li>• monitored by the FMA</li> <li>• reliance in some areas on overseas regulator.</li> </ul>
<b>audit firm</b>	<ul style="list-style-type: none"> <li>• registration authorised by accredited bodies</li> <li>• monitored by accredited bodies, but the FMA is responsible for quality reviews of the auditors and audit systems of the firm.</li> </ul>	<ul style="list-style-type: none"> <li>• registration authorised by the FMA</li> <li>• monitored by the FMA</li> <li>• reliance in some areas on overseas regulator.</li> </ul>
<b>accredited bodies</b>	<ul style="list-style-type: none"> <li>• accredited and monitored by FMA.</li> </ul>	

We will achieve these outcomes for the three-year period to 30 June 2018 by focusing on the following:

- increasing audit quality of FMC audits, through auditor compliance with auditing standards, other assurance standards, and professional and ethical standards

<sup>2</sup> ‘FMC audit’ has the same meaning as section 6 of the Auditor Regulation Act 2011

<sup>3</sup> The Auditor Regulation Act 2012 prescribes Australia, countries in the EU, Hong Kong, Singapore and the US.

<sup>4</sup> ‘Accredited body’ has the same meaning as section 6 of the Auditor Regulation Act 2011. The FMA has granted accreditation to the New Zealand Institute of Chartered Accountants and CPA Australia.

- ensuring accredited bodies have clear responsibilities and are effectively discharging their statutory functions.

We will achieve the above objectives by:

- providing guidance on the regulatory regime to licensed auditors, registered audit firms, accredited bodies and FMC reporting entities
- having effective licensing regimes and risk-based monitoring and surveillance of licensed auditors, registered audit firms and accredited bodies
- using risk-based, proportionate and timely action against misconduct.

One of our strategic objectives is to ensure accredited bodies are effective in their regulatory duties. Our priorities are set out in the *Strategic Risk Outlook 2015*.<sup>5</sup>

An ongoing area of the FMA's focus is to enhance the international recognition of New Zealand auditors. A key area is getting full recognition of New Zealand auditors by the European Union. The European recognition allows New Zealand auditors to continue their activities in the European Union in relation to the audit of financial statements. The European recognition also provides additional comfort on the robustness of New Zealand's regulatory structure, and provides confidence to investors that auditors are required to meet international standards.

We will also be raising the profile of the New Zealand audit regime by contributing to the International Forum of Independent Audit Regulators (IFIAR).

## Section 2: Improve audit quality of FMC audits

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Our first aim is to raise the audit quality of FMC audits by getting auditors to comply with auditing standards, other assurance standards, and professional and ethical standards.

### Why this objective is important

Auditors' responsibilities are set out in auditing standards, other assurance standards, and applicable professional and ethical standards. These standards also set out the basic principles of ethical and professional behaviour such as integrity, independence, competence, and working with skill, care and diligence. The foundation for quality audits is built upon compliance with these standards and requirements.

Auditors must also comply with other statutory conduct requirements such as those set out in the Act. Achieving compliance goes beyond following appropriate processes. It is also about the behaviour, attitude and use of professional judgment, and scepticism by auditors and their teams.

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<sup>5</sup> The FMA's strategic priorities are set out in the *Strategic Risk Outlook 2015* and available on our website (<https://www.fma.govt.nz/assets/Reports/150130-FMA-Strategic-Risk-Outlook-2015.pdf>).

## What we will focus on to achieve this objective

The FMA will achieve this by:

- licensing and monitoring overseas auditors and audit firms
- monitoring emerging risks
- monitoring the perimeter
- performing quality reviews of New Zealand audit firms and auditors
- overseeing and monitoring accredited bodies to ensure they carry out their statutory functions effectively. Our areas of focus related to accredited bodies are set out in section 3 of this report
- communicating information about the regime, our work and our expectations.

We are directly responsible for licensing, monitoring and acting against misconduct of overseas auditors and audit firms. Our responsibilities cover:

- 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 they are already regulated in their home country and expects the FMA will rely to a certain degree on the existing regulator.

We currently have applications from auditors and firms based in Australia. The FMA has carried out an assessment of the audit regimes in Australia, UK and the US, and may need to assess and change the prescribed minimum standards for additional countries if and when required.

### Licensing overseas auditors and registering overseas audit firms

We can grant licences to overseas auditors under section 12 of the Act or under the Trans-Tasman Mutual Recognition Act 1997<sup>6</sup>. We are also able to authorise registration of overseas audit firms under section 26 of the Act. Before licensing, we will check with the regulator in the auditor's home jurisdiction to ensure the auditor meets the prescribed minimum standards.

### Monitoring

We are developing a 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 apply for registration and licensing. This information will be used to enhance our monitoring approach, and build and maintain our relationships with overseas regulators.

Our direct monitoring of overseas auditors and firms will include:

- reviewing the annual reporting requirements of the licensed auditors, including the audit firm's quality control reviews by other regulators or professional bodies
- making appropriate inquiries into any complaints, tips or referrals, including those from overseas regulators
- using FMC reporting disclosure surveillance work to ensure audited financial statements comply with the Financial Reporting Act 1993 and 2013 respectively.

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<sup>6</sup> Guidance on the licensing under the Trans-Tasman Mutual Recognition is available from the FMA's website (<https://fma.govt.nz/assets/Templates/application-for-an-overseas-auditor-licence-under-the-trans-tasman-mutual-recognition-act-1997.pdf>).

## Actions against misconduct

We will use the full range of our regulatory tools in monitoring and taking actions taken against overseas auditors and audit firms.

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

## Monitoring emerging risks

We will monitor risks that potentially affect auditor compliance with auditing and assurance standards and other conduct requirements. The following will be key to monitoring risks:

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

We will monitor risks by:

- liaising with key stakeholders, including the External Reporting Board and other bodies representing issuers and insolvency specialists
- monitoring the financial statements of FMC reporting entities
- monitoring the experience of audit regulators internationally, especially the reporting by IFIAR and liaison with the Australian Securities and Investments Commission
- considering relevant complaints, tips or referrals
- considering potential lessons from any significant company or reporting failures.

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

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

- further evaluate the risk
- communicate our concerns to auditors and accredited bodies
- adjust our risk-based approach or introduce a new focus for quality reviews
- discuss with accredited bodies 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 on any unlicensed or unregistered auditors, or audit firms carrying out FMC audits. We will make referrals to accredited bodies as frontline regulators to take further action if necessary.

We will be monitoring financial statements, offer documents and accompanying audit reports filed with the Companies Office. This is to ascertain whether unlicensed auditors are undertaking FMC audits, when

auditors do not recognise clients as FMC reporting entities. We may also request information from licensed auditors and registered audit firms, directly or indirectly, from an accredited body.

## Quality reviews of New Zealand audit firms and auditors

Audit firms must have systems, policies and procedures in place to comply with auditing standards, professional and ethical standards, other assurance standards and other conduct requirements under the legislation<sup>7</sup>. The FMA must ensure that once every four years, a quality review of these systems, policies and procedures is carried out for New Zealand registered audit firms (and any firms with licensed auditors and licensed auditors not part of a firm)<sup>8</sup>. To remain internationally aligned, we will try to keep our review cycle consistent with the European Union (EU)'s three-year cycle.

Quality reviews are the direct responsibility of the FMA, although we may delegate this function to an accredited body or any other suitably qualified person. We have decided to initially delegate this function to the New Zealand Institute of Chartered Accountants (NZICA).

We ensure the delegated reviewer produces quality work. The quality reviews are carried out under the methodology approved by the FMA. The firms and licensed auditors are reviewed under a programme and schedule also approved by us. The timing, frequency, and selection of the audit files are determined using a risk-based framework approved by the FMA. We are involved in key decisions, and issue the final review reports to the audit firms. Our staff also participates in most quality review visits.

Our approach is based on the risk that the FMC reporting entity poses to investors. We also pay special attention to the policies and procedures of each audit firm's quality. The quality review programme for 2015-2018 will continue to focus on:

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

FMA's focus for quality reviews covers:

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

We have selected these themes based on reports issued by overseas auditor regulators and our initial findings from the first quality reviews performed as part of the new regime<sup>9</sup>. Each of these focus areas is

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<sup>7</sup> Check the FMA's website (<https://fma.govt.nz/assets/Compliance-section/120418-the-auditor-regulation-act-prescribed-minimum-standards-and-conditions-for-licensed-auditors-and-registered-audit-firms-notice.pdf>) for the prescribed minimum standards for licensed auditors and registered audit firms.

<sup>8</sup> See section 65 of the Auditor Regulation Act 2011.

<sup>9</sup> Quality review report 2013-2014 can be found on FMA's website:

<https://www.fma.govt.nz/assets/Reports/140630-Audit-Quality-Review-Report-2014.pdf>.



discussed below. Quality reviews are carried out 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 firm's own control policies and procedures. We will also be monitoring those procedures to ensure the policies and processes within a quality control system are relevant, adequate, and operating effectively. Leadership plays an important role in an audit firm's quality so we will be looking at policies and procedures provided by the leaders of the firm that promote audit quality.

The engagement partner is responsible for audits being performed according to the firm's audit policies. It is therefore important the engagement partner, together with the engagement quality control reviewer (EQCR), is involved in all stages of the audit, including audit planning, reviewing key judgments and the conclusions reached.

## **Auditor independence**

We will review compliance with auditor independence requirements, including:

- complying with the auditor rotation requirements, including the requirement to rotate the EQCR
- complying with the requirement for providing non-audit services. We will focus on how these services:
  - are approved within the firm
  - comply with the auditing standards
  - are documented on the audit file, especially the assessment of threats and how these threats are mitigated
  - are communicated to those charged with governance of the FMC reporting entity
  - are documented in the financial statements and audit opinions.

## **Audit evidence and documentation**

We will review whether licensed auditors have obtained appropriate audit evidence to determine whether FMC reporting entities' financial statements are free of material misstatements. We will also review whether sufficient audit evidence has been obtained to support the audit opinion. Our focus on audit documentation will cover:

- the auditor's work on the management's assessment of the entity's ability to continue as a going concern
- the completeness and accuracy of related-party transactions
- procedures related to subsequent events up until the date of the audit opinion
- revenue recognition, especially related to fraud assumptions and management override
- the use of sample sizes, especially where the audit approach is mainly based on substantive audit procedures
- the reliance on analytical procedures
- key risk areas specific to the individual FMC reporting entity, and whether sufficient and appropriate audit evidence has been obtained about these risks.

## **Professional scepticism**

We expect a level of professional scepticism to be maintained during an audit. Engagement partners, engagement quality control reviewers and staff should maintain questioning minds, 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 on accounting estimates and fair value calculations
- management and directors' representations about 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
- changes in accounting treatments or use of unusual accounting treatments by the FMC reporting entities.

## Understanding of the issuer and its environment

We expect the auditor to have an adequate understanding of an FMC reporting entity's business model. This will be reflected in the auditor's risk assessment and the auditor's interaction with the audit committee to ensure key areas of risk are included in the audit strategy, and have been properly addressed using sufficient audit procedures.

## The auditor's responsibilities relating to fraud

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.

## Use of an auditor's expert

Audited entities may get advice from external or internal experts where financial reports include complex areas or matters requiring specialist skills or knowledge (such as valuations of assets and liabilities). The FMA expects an auditor relying on the work of other auditors and experts to assess their competence and objectivity. Auditors have to evaluate the appropriateness of the work performed by subject experts, their competence, independence and the key assumptions, and valuation methods used. In the absence of in-house expertise, we expect the auditor to engage an independent expert to assess the work performed by the entities' expert.

## Audit fees and audit performance

We will focus on the trend of audit fees at FMC reporting entities, especially where it resulted in a lower audit fee after a tender process. We also focus on low audit fees that don't reflect the complexity of FMC entities current business.

## Quality review findings

It is likely that quality reviews will reveal some breaches of relevant audit standards, or areas for improvements. Following a quality review, the FMA has the power to issue a direction to a firm (or auditor) to amend its systems, policies and procedures. Our response, will however, depend on the seriousness of the review findings. It could require the audit firm to perform additional audit work or to restate financial statements.

Where the audit firm is willing to comply, it may be more efficient for findings to be remedied through a remediation plan provided by the audit firm without the need for a formal direction. In cases where significant findings are noted, there will be a follow-up review of the firm's remedial action. For individual firms, the risk-based approach may influence the frequency, depth and timing of their reviews within the three-year framework, taking into account factors such as:

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

We will be transparent and make available information on areas of focus and any general messages emerging from our quality reviews in a timely way. We will work closely with accredited bodies to circulate this information.

We will publish our quality reviews in a report every year, before 31 December, to the year ending 30 June.<sup>10</sup> We will provide and make available to licensed auditors, and other stakeholders, reports issued by IFIAR that include the results of our monitoring work. We will also, where appropriate, draw information to the attention of overseas auditors.

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

### **Education and communication about the regime**

We will provide information to licensed auditors, registered audit firms, accredited bodies and FMC reporting entities and other stakeholders about the regulatory regime and matters arising from it. This is so that auditors can willingly comply with our compliance expectations, our standards and requirements. This plan forms part of our approach, along with documents such as the annual report on quality reviews of auditors' compliance with auditing and assurance standards. FMA staff also attend a wide range of conferences and seminars to inform licensed auditors and other stakeholders about the regime. We will work with accredited bodies to circulate information. Information for overseas auditors and firms will be available on our website, [fma.govt.nz](http://fma.govt.nz). Information will also be provided to overseas regulators and professional bodies when appropriate.

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

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

## **Section 3: How accredited bodies discharge their statutory functions**

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### **Why this objective is important**

While some areas of the auditor oversight regime are carried out by the FMA directly, significant areas will be delivered through monitoring how accredited bodies discharge their roles as frontline regulators. We expect accredited bodies to make a significant contribution to help this regime achieve the desired objectives.

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

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<sup>10</sup> See section 73 of the Auditor Regulation Act 2011

- 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. The success of the regime depends on accredited bodies effectively discharging their responsibilities. Understanding the FMA's expectations and stating clear responsibilities will help accredited bodies achieve this.

## What we will focus on to achieve this objective

This section includes descriptions of:

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

### The contribution of accredited bodies

The FMA expects accredited bodies to make a significant contribution to help the regime deliver the desired objectives. Accredited bodies play a key role in helping meet the goal of 'increased levels of auditor compliance with auditing and assurance standards and other conduct requirements' described in Section 2 by:

- meeting their obligations, both under the Act and the prescribed minimum standards<sup>11</sup> and conditions, on an ongoing basis
- working with auditors to help them to willingly comply with their own obligations under the auditing and assurance standards and other conduct requirements.

The FMA has set out its expectations of how an accredited body will organise itself in prescribed minimum standards and their obligations. The standards stipulate requirements for systems, policies and processes and the accredited body's monitoring of its functions.

Additionally, the FMA expects accredited bodies to notify us of matters relating to how they monitor licensed auditors and registered audit firms.

### Licensing

The FMA has set out our expectations for licensing undertaken by licensed auditors. We have prescribed minimum standards that accredited bodies must apply when licensing New Zealand auditors and audit firms, along with the kinds of conditions that we expect auditor licences to include.<sup>12</sup>

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

The 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 minimum licensing standards.

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<sup>11</sup> The prescribed minimum standards for accredited bodies and kinds of conditions that can be imposed are available from FMA's website (<https://fma.govt.nz/assets/Compliance-section/120404-auditor-regulation-act-2011-prescribed-minimum-standards-for-accredited-bodies-notice.pdf>).

<sup>12</sup> See the prescribed minimum standards for licensed auditors and registered audit firms available from FMA's website at <https://www.fma.govt.nz/compliance/role/auditors/your-ongoing-obligations>. The 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 their profession. Once the issues are identified, we expect accredited bodies to use the risk-based approach in their own monitoring (similar to that described earlier for FMA's quality reviews). We will liaise with accredited bodies to share information regarding emerging risks for auditors generally, and to ensure risk views are consistent.

The FMA expects accredited bodies' monitoring to consider:

- the FMA's quality reviews key focus areas (set out in section 2)
- individual ongoing competence requirements
- other themes or issues that we identify.

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

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

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

### Education and communication about the regime

We expect an accredited body to provide information about the regime and their approach and expectations. This will help auditors and audit firms in their licence application and increase the opportunity for voluntary compliance by the applicant.

We expect the monitoring results, and information about disciplinary and enforcement action, to be made public.

## The FMA's accreditation and monitoring of accredited bodies

### Accreditation

We may be requested to consider other applications for accredited body status. Our approach to accreditation is set out on our website.<sup>13</sup> This includes information about the conditions for accreditation.

### Monitoring

The Act requires an accredited body to give us an annual report on how it has performed its regulatory functions and its relevant systems and processes.<sup>14</sup> We must report on the adequacy and effectiveness of the relevant systems and processes annually by 31 December, for the year to 30 June.<sup>15</sup>

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<sup>13</sup> 'Policies and guidance for the assessment of applications to be an accredited body' are available from FMA's website (<https://fma.govt.nz/assets/Guidance/120401-policy-and-guidance-on-applications-for-accreditation-and-conditions-of-accreditation.pdf>)

<sup>14</sup> See section 51 of the Auditor Regulation Act 2011

<sup>15</sup> See section 52 of the Auditor Regulation Act 2011

We have discussed with accredited bodies what we expect them to provide in their annual report. We will be active in how we assess the accredited body's systems and processes. As part of our review process of an accredited body's audit regulatory systems, we will undertake monitoring visits to assess how accredited bodies comply with the requirements. We will do our monitoring work during the review period where possible, and not wait 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.

We will review:

- how the accredited bodies comply with and maintain their code of ethics (by reviewing the outcomes of practice reviews of accredited bodies' members)
- how the accredited body ensures compliance
- the complaint process
- specific procedures for confirming compliance with the code of ethics.

The FMA will review the accredited bodies' systems, policies and procedures that have been put in place to monitor licensed auditors and registered audit firms, to ensure that they mitigate issues of non-compliance and other matters of concern identified through complaints and reviews performed by the accredited bodies.

We will review newly issued and renewed licences for compliance with the minimum standards. We will also review accredited bodies' processes for responding to complaints and other issues, as noted through the practice reviews and our quality reviews.

We will regularly liaise with accredited bodies on any reports or notifications made by the accredited body and where appropriate, share the intelligence provided to us.

We will discuss, in a timely manner, any weaknesses identified or areas needing improvement. We have the power to direct an accredited body to amend its systems and processes. For efficiency reasons, we expect any issues to be resolved through constructive dialogue, and followed up with remedial action without the need to resort to a formal direction.

## Section 4: How the FMA will measure the objectives

Our *Statement of Performance Expectations 2015-16* sets out how we will measure our performance against our objectives, and how we will use government funding to achieve our objectives.

The SPE includes the following measures, directly relevant to our auditor regulation and oversight role:

Measure	2015/16 Target	2014/15 Forecast	2013/14 Actual	Baseline 2012/13 Actual
90% of frontline regulator referrals and misconduct reports about market participants requiring urgent attention are prioritised for action within one working day of receipt by the FMA's assistance team.	90%	90-100%	100%	100%
Once received by the FMA, 90% of fully completed licence applications <sup>16</sup> are processed within 60 working days and in accordance with established processes.	90%	new measure	new measure	new measure
95% of enquiries receive a substantive response from the FMA within 20 working days of the FMA receiving all relevant information.	95%	95-100%	99%	97%
The FMA undertakes at least 20 industry or business presentations or speeches per year, with the aim of providing better information and insight for regulated populations	20	new measure	new measure	new measure

The objectives in this plan are aligned with the FMA's overall objectives. We do not receive separate funding for our work on auditor regulation and oversight. Therefore we do not specifically publish separate impact measures for this work.

This plan discusses the outputs that we will deliver to achieve each of the desired objectives for auditor regulation and oversight.

<sup>16</sup> Includes licence renewals, variations and FMA licence applications. The measure does not include FMC Act licence applications received during the transition period.