

11 December 2020

Summary of key themes:
Submissions on the Auditor Regulation Act
(Prescribed Minimum Standards and
Conditions for Licensed Auditors and
Registered Audit Firms) Notice 2020

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Executive summary

We would like to thank all submitters for their feedback on the proposed Auditor Regulation Act (Prescribed Minimum Standards and Conditions for Licensed Auditors and Registered Audit Firms) Notice 2020 (the **2020 Notice**). We received 7 written submissions from audit firms and accredited bodies. We appreciate the points raised and effort put into these submissions.

In general most of the submitters supported the changes proposed in the [consultation paper](#) on the 2020 Notice. This document contains a summary of some key issues raised in those submissions. We have included comments in response to these key issues, which can be categorised into the following clauses and themes:

1. Clause 3(1)(g) – Timeframe
2. Clause 3(4) – Flexibility
3. Clause 8(1)(f) – Redundancy, terminology, and inconsistency with auditing standards

The Auditor Regulation Act (Prescribed Minimum Standards and Conditions for Licensed Auditors and Registered Audit Firms) Notice 2020

After carefully considering all the submissions, and taking into account the guiding principles contained in section 35 of the Auditor Regulation Act 2011, we decided to:

1. Revoke the Auditor Regulation Act (Prescribed Minimum Standards and Conditions for Licensed Auditors and Registered Audit Firms) Notice 2012, and (Prescribed Minimum Standards and Conditions for Licensed Auditors and Registered Audit Firms) Amendment Notice 2015 (together, the **Original Notice**); and
2. Replace the Original Notice with the 2020 Notice, subject to three additional changes to the 2020 Notice:
 - Clause 3(1)(g) (Timeframe): We have decided to provide clarification that the requirement in clause 3(1)(g) must be completed within 7 years.
 - Clause 3(4) (Flexibility): We have decided not to adopt the proposed amendment to clause 3(4). We will instead retain the original wording from clause 3(4) of the Original Notice, with its references to other clauses updated accordingly.
 - Clause 8(1)(f) (Redundancy, terminology, and inconsistency with auditing standards): We have decided not to adopt the proposed amendment to clause 8(1)(f). We will instead retain the original wording from clause 8(1)(f) of the Original Notice.

The reasons for these additional changes are also included in our responses to the above key themes.

Key theme- Clause 3(1)(g)

Original Notice clause 3(1)(g)

3(1) A natural person who applies to an accredited body to be issued with a licence under section 11 of the Act must meet the following minimum standards prescribed under section 32(1)(a) of the Act:

(...)

- (g) the person must complete 375 hours of work on FMC audits (which may be included in the 750 hours referred in clause 3(1)(f)), except that:
 - (i) if the person has been accredited or licensed as an auditor in an approved overseas jurisdiction, the person may apply up to 125 hours of time accrued on audits of overseas issuers towards satisfaction of the hours requirement in respect of FMC audits; or
 - (ii) if the person has held a licence issued under section 12 of the Act within the six month period immediately prior to their making an application for a licence under section 11, the person may apply any amount of time accrued on audits of overseas issuers towards satisfaction of the hours requirement in respect of FMC audits;

Initial proposed amendment clause 3(1)(g)

3(1) A natural person who applies to an accredited body to be issued with a licence under section 11 of the Act must meet the following minimum standards prescribed under section 32(1)(a) of the Act:

(...)

- (g) the person must complete 375 hours of work on FMC audits (which may be included in the 750 hours referred in clause 3(1)(f)), except that:
 - (i) if the person has been accredited or licensed as an auditor in an approved overseas jurisdiction, the person may apply time accrued on audits of overseas issuers towards satisfaction of the hours requirement in respect of FMC audits; or
 - (ii) if the person has held a licence issued under section 12 of the Act within the six month period immediately prior to their making an application for a licence under section 11, the person may apply any amount of time accrued on audits of overseas issuers towards satisfaction of the hours requirement in respect of FMC audits;

Timeframe

In relation to the initial proposed amendment of clause 3(1)(g), submitters suggested that we either:

- Clarify the specific timeframe in which the requirement of clause 3(1)(g) should be completed; or
- Remove clause 3(1)(g) to allow the consideration of experience beyond 7 years for reasons such as:
 - experienced gained over a career should be considered

- barrier for experienced audit partners who wish to undertake FMC audits in the future
- relevant hours on FMC audits and/or similar audit engagements are difficult to obtain unless planned before becoming a partner.

FMA comments

We agree with the above suggestion to clarify the specific timeframe. We have decided to provide clarification that the requirement in clause 3(1)(g) must be completed within 7 years. This is in line with timeframe requirement in clause 3(1)(i). The new amendment clause 3(1)(g) is set out below for reference. We believe this timeframe is important to maintain adequate and relevant, knowledge and expertise in auditing FMC reporting entities.

We acknowledge the submissions above on the removal of clause 3(1)(g). After consideration, we are of the view that the 375 hours of work on FMC audits within the relevant 7 years period is necessary in order to promote quality, expertise, and integrity in the audit profession in respect of FMC audits.

Therefore, we will adopt the amendment clause 3(1)(g) below:

3(1) A natural person who applies to an accredited body to be issued with a licence under section 11 of the Act must meet the following minimum standards prescribed under section 32(1)(a) of the Act:

(...)

- (g) the person must complete 375 hours of work on FMC audits (which may be included in the 750 hours referred in clause 3(1)(f)) within the 7 years prior to their making an application, except that:
 - (i) if the person has been accredited or licensed as an auditor in an approved overseas jurisdiction, the person may apply time accrued on audits of overseas issuers towards satisfaction of the hours requirement in respect of FMC audits; or
 - (ii) if the person has held a licence issued under section 12 of the Act within the six month period immediately prior to their making an application for a licence under section 11, the person may apply any amount of time accrued on audits of overseas issuers towards satisfaction of the hours requirement in respect of FMC audits;

Key themes – Clause 3(4)

Original notice clause 3(4)

- 3(4) In relation to an application for renewal of a licence:
- (a) the person is not required to have completed a professional course in auditing as required by clause 3(1)(e) if the person was not required to have completed that course in order to obtain their most recent auditor licence; and
 - (b) the person is not required to provide the advanced certificate of competence required by clause 3(1)(k)(i); and
 - (c) the person is not required to have completed the hours requirements in clause 3(1)(g) and (h) within the past five years, provided that the person has conducted sufficient audit work during the period of

their existing licence to have maintained adequate knowledge and expertise, to the satisfaction of the relevant accredited body.

Proposed amendment clause 3(4)

- 3(4) In relation to an application for renewal of a licence:
(...)
- (a) the person is required to:
- (i) have completed the ongoing competence requirements in clause 7 in the past five years; and
 - (ii) provide future plans for audit work (which must include at least 375 hours of work on FMC audits and/or similar audit engagements in the subsequent five years).
- (b) the person is not required to:
- (i) have completed a professional course in auditing as required by clause 3(1)(d) if the person was not required to have completed that course in order to obtain their most recent auditor licence; and
 - (ii) provide the advanced certificate of competence required by clause 3(1)(j)(i); and
 - (iii) have completed the hours requirements in clause 3(1)(f) within the past five years, provided that the person has conducted sufficient audit work during the period of the licence to have maintained adequate knowledge and expertise, to the satisfaction of the relevant accredited body.

Flexibility

Submissions on clause 3(4) focused on whether we can introduce flexibility into the proposed 375 hours requirement for licence renewal. Submitters noted that, if we decide to introduce clause 3(4) as a requirement, we should take into account the following instances, e.g.:

- Where a licensed auditor may wish to only renew their licensed for a period of less than 5 years (e.g. partners near retirement);
- Where a licensed auditor only acts predominately as a Key Audit Partner or EQCR (engagement quality control review), it may be difficult to meet the 375 hours requirement with limited hours due to required rotation to maintain independence; and
- How the 375 hours for future plans can be supported and verified.

FMA comments

We have decided not to adopt the proposed amendment to clause 3(4) (as outlined above), after taking into account the submissions we received. The original wording of clause 3(4) from the Original Notice will be retained with its references to other clauses updated accordingly.

We note that the aim of the initial proposal for this clause was to ensure that the licensed auditor intends to continue with the profession before applying for a renewal. However based on the feedback we received, we understand that there are many instances in which the auditor would want to renew their license, as well as difficulties in establishing a breach based on future intentions. Therefore, we have decided not to adopt the proposed amendment.

Key themes- Clause 8(1)(f)

Original notice clause 8(1)(f)

8(1) For the purposes of section 25(1)(b) and section 26(1)(d) of the Act, the following minimum standards are prescribed under section 32(1)(d) of the Act in respect of each audit firm that applies for registration

(...)

- (f) key decisions and judgements involved in an FMC audit must be subject to engagement quality control review by another licensed auditor;

Proposed amendments clause 8(1)(f)

8(1) For the purposes of section 25(1)(b) and section 26(1)(d) of the Act, the following minimum standards are prescribed under section 32(1)(d) of the Act in respect of each audit firm that applies for registration

(...)

- (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 at appropriate stages of the audit.

Redundancy, terminology, and inconsistency with auditing standards

Submissions received mainly focused on the clause 8(1)(f) of the Original Notice, which requires an FMC audit to be subject to EQCR, rather than the proposed amendments to clarify that the EQCR involvement be done in a timely manner. We received the following comments regarding:

- Redundancy – some submitters commented that paragraph 37 of the Professional and Ethical Standard 3 (Amended) (**PES 3**) Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements, requires an EQCR to include a number of matters beyond “key decisions and judgements” so it seems unnecessary to limit the scope of an EQCR or to reiterate matters which are already required by PES 3, in the 2020 Notice.
- Terminology – a submitter commented that the IAASB has issued an exposure draft “International Standard on Quality Management 2, Engagement Quality Reviews” to propose various enhancements to engagement quality reviews and terminologies. As an example, the IAASB proposed to change the terms “quality control” and “engagement quality control review” to “quality management” and “engagement quality review,” respectively.
- Inconsistency – a submitter commented the requirement of the EQCR does not align with the External Reporting Board (**XRB**) standards, which only requires an EQCR to be performed for audits of FMC reporting entities considered to have a higher level of public accountability (**HLP**A) (instead of all FMC audits).

FMA comments

We decided not to adopt the proposed amendment to clause 8(1)(f) (as outlined above), after taking into account the submissions we received (in particular around the redundancies with PES 3). We have decided that the original wording of clause 8(1)(f) from the Original Notice will be retained.

We acknowledge comments relating to the terminology theme. We aim to introduce subsequent amendments to the 2020 Notice to align terminologies with the “International Standard on Quality Management 2, Engagement Quality Reviews” which will be effective 15 December 2022.

In terms of the inconsistencies between the XRB and FMA requirement for EQCR involvement, our view is that the XRB standards set out the minimum requirements for audits of FMC reporting entities with HLPAs. The FMA’s requirements do not limit this XRB standard but provide an additional obligation on all FMC audits (which include, for example, the audits of financial statements of peer-to-peer lending services and crowdfunding providers). This requirement on FMC audits is consistent with the status quo for audit firms.

We agree that this requirement around FMC audits is of particular relevance to the FMA’s work, as we are the entity that ultimately receives and reviews these FMC audits (not the XRB). Additionally, we note that under the FMC Act, the FMA has wider responsibility in further determining whether an FMC reporting entity or a class of FMC reporting entity is considered to be HLPAs, whereas the XRB’s role is limited to having regard to the level of accountability when setting standards (ss 461J to 461L of the FMC Act¹). We are satisfied that the original wording of clause 8(1)(f) in the Original Notice strikes a balance between ensuring quality FMC audits and not imposing undue costs, as declaring these entities as HLPAs would mean they would have to comply with other HLPAs requirements.

¹ We also note that under the Auditor Regulation Act 2011, the FMA may prescribe minimum standards to promote compliance with requirements imposed by or under the Act and other enactments that relate to the conduct of audits, auditing and assurance standards, and otherwise promoting reasonable care, diligence, and skill in the carrying out of FMC audits (see s 34 of the ARA). We acknowledge that the XRB is responsible for issuing auditing and assurance standards (see s 12 of the Financial Reporting Act 2013), but in prescribing the minimum standards for licensing under the ARA, the FMA must be guided by the principles under s 35 of the ARA, including promoting quality, expertise, and integrity in the profession of auditors, in respect of FMC audits.