

**Memorandum of Understanding between the
Financial Markets Authority and the Controller and
Auditor-General**

June 2016

Memorandum of Understanding dated 30 June 2016

between (1) the Controller and Auditor-General (the Auditor-General)
and (2) the Financial Markets Authority (FMA)

Background

- 1 The Auditor-General is an Officer of Parliament who carries out her role independently of executive government and Parliament. By law, the Auditor-General audits all public entities in New Zealand that are required to prepare general purpose financial reports – about 3700 public entities, such as government departments, Crown entities, schools, and State-owned enterprises. The role includes auditing local authorities, which are accountable to the public for the activities that they fund with rates and other revenue.
- 2 The Auditor-General's work is carried out by staff in two business units – the Office of the Auditor-General (OAG) and Audit New Zealand – supported by a shared team of corporate services staff. She also contracts auditors from about 50 private sector accounting firms to carry out some annual audits on the Auditor-General's behalf.
- 3 Audit New Zealand, the larger of the two business units, has offices in seven cities and carries out annual audits of public entities that the Auditor-General allocates to it.
- 4 The Auditor-General appoints auditors under the Public Audit Act to carry out audits of public entities, including FMC reporting entities. Appointed auditors may be employees, or other qualified auditors, or audit service providers.
- 5 The FMA is an independent Crown entity established under section 6 of the Financial Markets Authority Act 2011. The FMA's main objective, as set out in section 8 of the Financial Markets Authority Act, is to promote and facilitate the development of fair, efficient, and transparent financial markets. The FMA has statutory functions under the Financial Markets Authority Act and the Acts listed in Schedule 1 of that Act. The FMA enforces securities, financial reporting, and company law as they apply to financial services and securities markets and its role is to help develop financial markets that efficiently allocate capital, operate with integrity and provide diverse investment opportunities for New Zealanders and international investors.
- 6 As part of its role, the FMA undertakes the oversight of New Zealand and Overseas Licensed auditors. An important part of this oversight is the audit quality review of all

registered domestic audit firms and individual auditors who are not members of a registered audit firm at least once every 4 years. Those reviews include an assessment of the design of the internal control systems of the audit firm or licensed auditor in connection with the provision of audit services and a review of a reasonable number of FMC audit files for compliance with auditing and assurance standards. It is the FMA's responsibility to verify the effectiveness of the internal quality control systems of the audit firm or licensed auditor and their compliance with auditing and assurance standards. The FMA may arrange for an accredited body or any other suitably qualified person to carry out a quality review (in whole or in part) on its behalf.

Purpose

- 7 Under the Public Audit Act 2001 the Auditor-General may ask the FMA to arrange for a quality review of the systems, policies, and procedures applying to the employees of the Auditor-General who assist in auditing FMC reporting entities.
- 8 Under the Auditor Regulation Act 2011, the Auditor-General may also agree to the FMA carrying out a quality review of the systems, policies, and procedures applying to her appointed auditors (who are not her employees) who assist in auditing FMC reporting entities.
- 9 The agreement between the Auditor-General and the FMA recorded in this Memorandum of Understanding (**Memorandum**) sets out the basis upon which these quality reviews are to be carried out.
- 10 This Memorandum will be made available on the FMA's website.
- 11 Nothing in this Memorandum is intended to limit or affect the independence of each party or the requirement that each party act independently to fulfil its functions and obligations.

Overarching principles of cooperation and coordination

- 12 The Parties agree that in their dealings with each other as contemplated under this Memorandum they will :
 - a) cooperate in the performance of their respective functions;

- b) act in good faith, and approach issues in a timely, collaborative, open, and transparent manner;
- c) treat information exchanged in confidence, in accordance with statutory obligations;
- d) forewarn each other of actions taken or proposed to be taken, where appropriate, and of which the other might reasonably be expected to be advised; and
- e) maintain an appropriate degree of transparency on principles and practices relating to the performance of their respective functions.

Purpose of Quality Review

- 13 Under section 15A of the Public Audit Act 2001, the Auditor-General may ask the FMA to arrange for a quality review to be carried out of the systems, policies and procedures applying to employees of the Auditor-General who assist in carrying out audits of FMC reporting entities. Under section 67(2) of the Auditor Regulation Act 2011, the Auditor-General may agree to the FMA carrying out a quality review of the systems, policies, and procedures applying to her appointed auditors who assist in auditing FMC reporting entities.
- 14 The purpose of a quality review under the Public Audit Act 2001 (section 15A) is to provide the Auditor-General with advice on whether the systems, policies and procedures (which apply to her employees) are satisfactory in terms of-
- (a) promoting, in relation to audits of FMC reporting entities under this Act, compliance with the auditing and assurance standards that apply to those audits: and
 - (b) otherwise promoting reasonable care, diligence and skill in carrying out of those audits.
- 15 The purpose of a quality review under section 67(2) of the Auditor Regulation Act 2011 is to provide the Auditor-General with similar advice in relation to appointed auditors (who are not her employees) that audit public sector FMC reporting entities.

Scope of Quality Review

- 16 The Auditor-General invites the FMA to undertake quality reviews of FMC audits carried out by her employees under sections 15 and 19 of the Public Audit Act 2001.
- 17 The Auditor-General agrees to quality reviews of financial report audits of FMC reporting entities carried out by auditors who are not employees and have been appointed under the Public Audit Act to audit FMC reporting entities.
- 18 The focus of the quality reviews will be on those audits which would meet the definition of FMC audits in the Auditor Regulation Act 2011, but for the fact that those audits are carried out by, or on behalf of the Auditor-General under the Public Audit Act 2001.
- 19 The Auditor-General will write to the FMA and request a quality review under section 15A of the Public Audit Act 2001. Quality reviews of appointed auditors who carry out FMC audits on behalf of the Auditor-General but who are not employed by her will be undertaken by the FMA as part of its regular reviews of licensed auditors. The FMA will advise the Auditor-General when it intends to carry out these reviews.

Reporting the results of Quality Review

- 20 The quality reviewer will provide their initial findings to those persons with direct responsibility for the area being reviewed (**Affected Persons**). The Affected Persons will be given an opportunity to comment on the initial findings. After considering any comments from the Affected Persons, the FMA will report the results of the quality review, including any recommendations, to the Auditor-General.
- 21 The Auditor-General has stakeholders who rely on her independence and integrity. For this reason the Auditor-General may report publicly the results of an FMA quality review of FMC audits carried out by her employees. The Auditor-General will consult with the FMA before any public reporting takes place.
- 22 In line with section 74 of the Auditor Regulation Act 2011, the FMA may report publicly the results of an FMA quality review of FMC audits carried out by auditors who are not employees of the Auditor-General. The FMA will consult with the Auditor-General before any public reporting takes place.

- 23 The FMA must not disclose the results of any quality review to third parties without first consulting with the Auditor-General.

Access to information about licensed auditors

- 24 The Auditor-General agrees that licensed auditors carrying out audits on behalf of the Auditor-General are expected to provide relevant OAG quality assurance reports to the FMA for the purposes of the FMA carrying out a quality review of those licensed auditors. At the same time, the FMA agrees that licensed auditors carrying out audits on behalf of the Auditor-General are expected to provide relevant FMA quality review findings to the OAG for the purposes of the OAG carrying out a quality assurance review of those licensed auditors.
- 25 The Auditor-General and the FMA agree to share information relevant to each party's role in connection with audit quality of licensed auditors and their firms.

Maintaining confidentiality

- 26 Without prejudice to or limitation of any applicable legal principles, each party will observe the strictest confidence in relation to information supplied under this Memorandum, or derived from or based on any such information (**Protected Information**). Neither party will use or disclose Protected Information unless the use or disclosure is required or otherwise authorised by law, or authorised by the other, or is otherwise required to fulfil a statutory function.

Cost of Quality Review of Audit New Zealand

- 27 The Auditor-General agrees that the FMA can charge a fair fee for the quality review of Audit New Zealand in accordance with FMA's policies and practices and in accordance with section 15(1)(e) of the Auditor Regulations 2012. Fees are to be negotiated directly with the Executive Director of Audit New Zealand.

Disputes

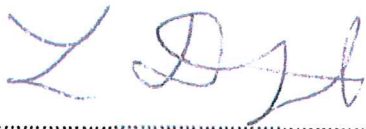
28 When there is a disagreement over any matter related to issues in this Memorandum, the parties will seek to resolve the issue by negotiation at an operational level. If these negotiations fail, the matters will be referred to the Auditor-General and the Chief Executive of the FMA for discussion and resolution.

Term of Memorandum

29 This Memorandum remains effective unless terminated by either party (by giving 30 days written notice) or by mutual consent.

30 All confidentiality commitments between the parties will remain in effect despite any termination of this Memorandum.

31 This Memorandum may be amended at any time during its term by written agreement between the two parties.



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Lyn Provost
Controller and Auditor-General

Date: 30/6/16



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Rob Everett
Chief Executive of the Financial Markets Authority

Date: 21/7/16