

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

Please submit this feedback form electronically in both PDF and MS Word formats via email to consultation@fma.govt.nz with 'Feedback: The Auditor Regulation Act (Prescribed Minimum Standards and Conditions for Licensed Auditors and Registered Audit Firms) Notice 2020' in the subject line. Thank you.
Submissions close at 5pm on Monday, 21 September 2020.

Date: **21 September 2020** Number of pages: **3**
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 Company or entity: **CPA Australia**
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| Question number | Comment | Recommendation |
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| <p><i>You don't need to quote from the consultation document if you use page numbers. You may insert additional lines or pages - please label each additional page with your name & organisation.</i></p> | | |
| a) Do you agree or disagree with the proposed replacement of the Original Notice? Please provide your reasons. | We agree with the proposal to replace the Original Notice. | N/A |
| b) Do you agree or disagree with any of the proposed amendments set out in Appendix 2? Please provide your reasons. | <p>We disagree with the approach in the following proposed clauses:</p> <ul style="list-style-type: none"> - Clause 3(4) requires "In relation to an application for renewal for a licence: ... (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)." We do not see the relevance or value of applicants providing intentions to conduct FMC audits in the future. It is not a statement which can be supported or verified. Even if the applicant makes such a claim in good faith, their circumstances can change, they may obtain non-FMC audit work which precludes them from conducting FMC audits or they made not succeed in obtaining the intended volume of FMC audit | <p>We recommend:</p> <ul style="list-style-type: none"> - Clause 3(4) Deleting proposed subclause 3(4)(ii) so that future plans for audit work are not required to be provided. <p>Alternative solutions could include:</p> <ul style="list-style-type: none"> o Accredited bodies could encourage members to apply for an auditor licence only if they intend to conduct FMC audits. o Maintenance of experience could be required as a condition of annual licence renewal. The <i>Auditor Regulation Act 2011</i> s.18 requires Accredited bodies to set the competency programme for their licenced auditors and provides a number of alternatives as to how that can be achieved, including an assessment, a period of practical training, practical experience or a course of studies. Currently CPA Australia's ongoing requirements relate to hours of continuing professional development rather than practical experience, but this |

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| | <p>engagements. If the FMA are concerned about auditors maintaining experience on FMC audits or equivalent then a more effective alternative would be requiring a certain number of hours work per period on FMC audits to maintain their licence. CPA Australia’s annual renewal of the auditor’s licence already requires the type and number of FMC audits undertaken to be provided, therefore, confirmation of the hours could be added to that form.</p> <ul style="list-style-type: none"> - Clause 8(1)(f) states “key decisions and judgements 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”. <p>Professional and Ethical Standard 3 (Amended) (PES 3) <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements</i> paragraph 37 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 Notice.</p> <p>PES 3 paragraph NZ35.1 requires the firm to conduct an EQCR for audits of FMC reporting entities considered to have a higher level of public accountability and other audits and reviews based on the firm’s established criteria. It does not require EQCR on every FMC audit and we consider that it is too onerous to extend EQCR to every FMC audit.</p> | <p>could be reviewed in consultation with the FMA. For example, licenced auditors could be required to maintain an average of 375 hours work on FMC audits over 5 years on a rolling basis or 75 hours per year and confirm they have maintained that in their annual licence renewal notice.</p> <ul style="list-style-type: none"> - Clause 8(1)(f) Amend proposed subclause 8(1)(f) by: <ul style="list-style-type: none"> ○ Delete “key decisions and judgements involved in” and define EQCR as an engagement conducted in accordance with PES 3. ○ Amend “FMC audit” to read “audit of FMC reporting entities considered to have a higher level of public accountability or engagements identified using criteria developed under PES 3.” ○ Replace “in a timely manner” with “and completed on or prior to the date of the auditor’s report”. ○ deleting the phrase “at appropriate stages of the audit” to allow the firm to determine when it is appropriate to conduct the EQCR. |
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| | <p>As PES 3 paragraph 42(b) requires the EQCR to be completed on or before the date of the auditor's report, so there is no need for there to be a requirement that it be done in a timely manner.</p> <p>In addition, we consider that it is unreasonable to require an EQCR to always to be conducted "at appropriate stages of the audit" as that may not be necessary or appropriate for every audit.</p> | |
| c) Do you have any other comments on the 2020 Notice or the proposed amendments set out in Appendix 2? | No | N/A |
| d) Would the proposed amendments have any other adverse impact as a licensed auditor or registered firm? If so, please describe what this would be. | No | N/A |
| Feedback summary – <i>if you wish to highlight anything in particular.</i> | | |
| <p>Please note: Feedback received is subject to the Official Information Act 1982. We may make submissions available on our website, compile a summary of submissions, or draw attention to individual submissions in internal or external reports. If you want us to withhold any commercially sensitive or proprietary information in your submission, please clearly state this and note the specific section. We will consider your request in line with our obligations under the Official Information Act.</p> | | |
| Thank you for your feedback – we appreciate your time and input. | | |