

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

## Notice 2020

Pursuant to section 32 and 92 of the Auditor Regulation Act 2011, the Financial Markets Authority gives the following notice.

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### Notice

#### 1. Title and commencement

- (1) This notice is the Auditor Regulation Act (Prescribed Minimum Standards and Conditions for Licensed Auditors and Registered Audit Firms) Notice 2020.
- (2) This notice comes into force on the day after its notification in the *New Zealand Gazette*.

#### 2. Interpretation

- (1) In this notice, unless the context otherwise requires:

**Act** means the Auditor Regulation Act 2011.

**advanced certificate of competence** means a certificate, in a form acceptable to the accredited body, from an assessor certifying that an applicant has demonstrated competence in all key aspects of an audit.

**application for renewal** means an application for a licence by a person who is currently a licensed auditor or whose auditor licence has expired, if the application was made to the accredited body within three months after the expiry of that person's most recent licence.

**appropriate professional body** means a professional body relevant to a registered audit firm partner's professional practice which meets the criteria set by the accredited body, including:

- (a) having rules which require members to meet standards of professional conduct and ethics; and

(b) having the ability to enforce compliance with its rules; and

(c) includes an approved professional accounting body.

**approved course** means an approved academic qualification relevant to accounting and auditing from a tertiary institution that has been approved by an accredited body.

**approved overseas jurisdiction** means Australia, the United Kingdom and the United States of America or another jurisdiction specified by the FMA from time to time by notice on its website.

**approved practising certificate** means a practising certificate, of a kind acceptable to the FMA, issued by an accredited body under its rules which authorises the holder to provide professional accounting or auditing services to the public.

**approved professional accounting body** means:

(a) an accredited body; or

(b) in the case of an overseas auditor, a professional accounting body of which the overseas auditor is required to be a member under the auditor licensing laws of the overseas auditor's home jurisdiction, or as a condition of being a licensed auditor in New Zealand; or

(c) in the case of a partner of a registered audit firm who is not a licensed auditor, a professional body:

(i) whose primary membership is accountants or auditors;

(ii) that is a member of the International Federation of Accountants; and

(iii) meets any other criteria set by the accredited body.

**assessor** means a licensed auditor who has been approved by an accredited body to assess and attest to the competence of a prospective licensed auditor.

**Australian professional accounting body** means Chartered Accountants of Australia and New Zealand, The Association of Authorised Public Accountants, and CPA Australia Limited.

**CPA** means an auditor who is a certified professional accountant in the United States of America.

**FMA** means the Financial Markets Authority established under the Financial Markets Authority Act 2011.

**IPSAS** means the International Public Sector Accounting Standards.

**NZ IFRS** means the New Zealand equivalent of the International Financial Reporting Standards.

**overseas issuer** means a company which:

- (a) is incorporated in an approved overseas jurisdiction; and
- (b) has issued securities to the public in its place of incorporation pursuant to a regulated offer of securities; and
- (c) is subject to financial reporting requirements in its place of incorporation which are comparable to those of an FMC reporting entity under the Financial Reporting Act 2013; and
- (d) is not an FMC reporting entity for the purposes of the Financial Reporting Act 2013.

**PCAOB** means the Public Company Accounting Oversight Board of the United States of America.

**Professional and Ethical Standards** means the Professional and Ethical Standards issued by the External Reporting Board.

**RCA** means an auditor who is a registered company auditor in Australia.

**relevant authority** means the accredited body or the FMA, as the case may be, that received the application, issued the auditor licence or authorised the registration of the audit firm.

**relevant rules and codes** means the rules and codes specified by the relevant authority, and may include:

- (a) the rules and any codes of ethics or codes of conduct of an approved professional accounting body; and
- (b) any laws or rules the licensed auditor is required to comply with as a result of conducting audits in another jurisdiction.

**responsible individual** means a person designated as such in accordance with United Kingdom audit regulations.

**similar audit engagement** means an audit or review of the financial statements of an entity:

- (a) which is of a comparable level of complexity to an FMC audit; and
- (b) which is of a type of audit engagement that could satisfy the definition of FMC audits in the Act if the subject was an FMC reporting entity; and
- (c) where the entity:

- (i) prepares full NZ IFRS accounts or full IPSAS accounts; or
  - (ii) is a large company which prepares accounts under the reduced disclosure regime or former differential reporting framework; or
  - (iii) is an overseas company which prepares accounts under full IFRS or an acceptable local equivalent (without any concessions in respect of measurement or disclosures); or
  - (iv) is an overseas company which prepares accounts under a reduced disclosure regime approved by the FMA and meets any threshold requirements the FMA sets for companies relying on that reduced disclosure regime, and
- (d) where the entity is an overseas issuer.

**specified reports and notifications** means any document or information the relevant authority specifies must be provided, whether at specified intervals or as a result of a specified event, and may include:

- (a) notifications of changes to specified information held by the relevant authority; and
- (b) notification of breaches of specified obligations the licensed auditor must comply with; and
- (c) periodic reports on engagements undertaken or training completed; and
- (d) notifications where the licensed auditor resigns from or declines to undertake an FMC audit engagement.

**structured training** includes attending or presenting at seminars, training courses or conferences, and working towards formal qualifications or published research works.

**United Kingdom professional accounting body** includes The Institute of Chartered Accountants of England and Wales, The Chartered Institute of Certified Accountants and The Institute of Chartered Accountants of Scotland.

- (2) Unless the context otherwise requires, use of the definite article in respect of the terms “accredited body” or “relevant authority” refers to the organisation to which the particular application has been made or by which the licence was issued or registration was approved, as the case may be.
- (3) Any term or expression that is defined in the Act and used, but not defined, in this notice has the same meaning as in the Act.

### **3. Prescribed minimum standards for licensed auditors**

- (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:

*Academic qualification*

- (a) the person has:
- (i) successfully completed an approved course; or
  - (ii) attained knowledge and expertise which are equivalent to that expected of a person who has completed an approved course, as assessed to the satisfaction of an accredited body;

*Membership of an accredited body*

- (b) the person is a full member of an accredited body;

*Practising certificate*

- (c) the person holds an approved practising certificate issued by the accredited body;

*Audit-specific professional qualification*

- (d) the person has successfully completed a professional course in auditing approved by the FMA;

*Post qualification experience*

- (e) the person has at least five years of audit experience;
- (f) the person has completed at least 3,000 hours of audit work within the five years immediately prior to their making an application for a licence under section 11 of the Act or such longer period as is approved by the accredited body, including at least 750 hours of work on FMC audits and/or similar audit engagements;
- (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 seven 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;
- (h) the person may complete all, or any part, of their required experience while living outside New Zealand; provided that where the accredited body determines that the overseas experience gained is of a lesser quality than acceptable experience undertaken in New Zealand, the person completes such additional period of experience specified by the accredited body; and
- (i) the person may not include any experience which was gained more than seven years prior to their making an application for a licence under section 11 of the Act.

*Advanced certification of competence and other competency requirements*

- (j) the person must be competent to conduct an FMC audit, and:
  - (i) has attained an advanced certificate of competence issued by an assessor; and
  - (ii) has provided such further information to an accredited body as the accredited body deems necessary in order to demonstrate the applicant's competence;
- (2) The hours of audit work and the hours of work on FMC audits and/or similar audit engagements referred to in clause 3(1)(f) and (g) above must be completed under the supervision of:
  - (a) where the experience is completed in New Zealand after the commencement of the Act, a licensed auditor;
  - (b) where the experience is completed outside New Zealand, a person who is accredited or licensed to conduct audits in the country where the experience was gained;
- (3) A person is not required to demonstrate that they comply with the hours of audit work requirements in clauses 3(1)(f) and (g) and is not required to provide the advance certificate of competence required by clause 3(1)(j)(i) if the person:
  - (a) has completed sufficient ongoing audit work to maintain their knowledge and expertise in audit between the time they entered the profession and the date of their application.
- (4) In relation to an application for renewal of a licence:
  - (a) the person is required to: the person is not required to 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

- (b) the person is not required to provide the advanced certificate of competence required by clause 3(1)(j)(i); and
- (c) the person is not required to have completed the hours requirements in clause 3(1)(f) and (g) 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.

#### **4. Prescribed minimum standards for overseas auditors**

- (1) An overseas auditor who applies to the FMA to be issued with a licence under section 12 of the Act must meet the following minimum standards prescribed under section 32(1)(a) of the Act:

##### *Australia*

- (a) the auditor must:
  - (i) be an RCA;
  - (ii) be a member of an Australian professional accounting body;
  - (iii) provide evidence of continuing experience since becoming an RCA;
  - (iv) have completed at least 375 hours of experience on FMC audits or audits of companies which issue securities to the public in Australia; and
  - (v) have completed a training course approved by the FMA which provides the RCA with a reasonable knowledge of New Zealand laws relevant to commercial law and taxation, or

##### *United Kingdom*

- (b) the auditor must:
  - (i) be a responsible individual;
  - (ii) be a member of a United Kingdom professional accounting body;
  - (iii) be a partner or employee of a firm registered with the Financial Reporting Council of the United Kingdom;
  - (iv) provide evidence of continuing experience since becoming a responsible individual;
  - (v) have completed at least 375 hours of experience on FMC audits or audits of overseas issuers; and

- (vi) have completed a training course approved by the FMA which provides the responsible individual with a reasonable knowledge of New Zealand laws relevant to commercial law and taxation; or

*United States*

- (c) the auditor must:
  - (i) be registered as a CPA;
  - (ii) be a member of the American Institute of Certified Public Accountants; and
  - (iii) be a partner or employee of a firm registered with the PCAOB;
  - (iv) provide evidence of the academic and professional training completed by the applicant in order to be registered as a CPA;
  - (v) have completed:
    - (A) 3,000 hours auditing experience within the five years before becoming a CPA; or
    - (B) complied with any requirements set by the American Institute of Certified Public Accountants;
  - (vi) provide evidence of continuing experience since becoming a CPA;
  - (vii) have completed at least 375 hours of experience on FMC audits or audits of overseas issuers; and
  - (viii) have completed a training course approved by the FMA which provides the CPA with a reasonable knowledge of New Zealand laws relevant to commercial law and taxation.

**5. Conditions to which licences must be subject**

- (1) For the purposes of section 32(1)(b)(i) of the Act, every auditor licence must be subject to conditions of the following kind:
  - (a) conditions requiring licensed auditors to comply with any relevant rules and codes;
  - (b) conditions which ensure the licensed auditor does not accept FMC audit engagements (other than through a registered audit firm of which they are a partner or employee) unless the licensed auditor has:
    - (i) systems, policies and procedures that are equivalent to those required of a registered audit firm as prescribed under clause 8(1)(d); and



- (ii) professional indemnity insurance that is adequate and appropriate for the nature and scale of the licensed auditor's business activities; and
- (c) conditions requiring licensed auditors to provide specified reports and notifications to the relevant authority.

#### **6. Conditions to which licences may be subject**

- (1) For the purposes of section 32(1)(b)(ii) of the Act, auditor licences may be subject to conditions of the following kinds:
  - (a) conditions restricting, or providing a mechanism for restricting or supervising, the FMC audits a licensed auditor can undertake;
  - (b) conditions regulating the workload taken on by a licensed auditor;
  - (c) conditions allowing the relevant accredited body to monitor a licensed auditor's workload and/or monitor a licensed auditor's compliance with any conditions regulating the licensed auditor's workload.

#### **7. Prescribed requirements for ongoing competence**

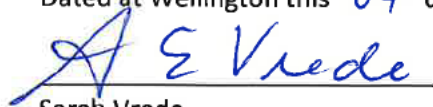
- (1) Persons licensed by an accredited body under section 11 of the Act shall be subject to the following ongoing competence requirements prescribed for the purposes of section 32(1)(c) of the Act:
  - (a) When a licensed auditor is a member of an accredited body that is required to meet the International Federation of Accountants requirements, the licensed auditor should comply with the most-recent International Education Standards (professional competence for engagement partners responsible for audits of financial statements as set by the International Accounting Education Standards Board).
  - (b) When the accredited body is not a member of the International Federation of Accountants, the licensed auditor should at a minimum meet the following requirements:
    - (i) Complete at least 120 hours of training and education in every rolling three-year period, with such training or education to include at least 20 hours completed in every year (together, the **required training**); and
      - (A) at least 60 hours of the required training must be structured training; and
      - (B) of the structured training, at least 18 hours must relate to auditing and at least 18 hours must relate to financial reporting;

- (ii) All required training must be relevant to the auditor's professional activities.
- (2) Required training must not include research or training which is required as part of conducting any particular audit or assurance engagement.

**8. Prescribed minimum standards for registration as a registered audit firm**

- (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:
  - (a) In the instance of a partnership, the majority of partners of an audit firm must be members of an approved professional accounting body and hold a practising certificate issued by that professional accounting body.
  - (b) In the case of a company, the company must comply with the requirements of regulation 5A of the Auditor Regulation 2012.
  - (c) All partners of a partnership that is an audit firm and all directors of a company that is an audit firm must be fit and proper persons, as assessed by the relevant authority.
  - (d) The audit firm must have systems, policies and processes which:
    - (i) comply with the requirements of Professional and Ethical Standards; or
    - (ii) in the case of an overseas audit firm:
      - (A) materially comply with the requirements of Professional and Ethical Standards; and
      - (B) comply with the requirements of the corresponding standards applicable in the audit firm's home jurisdiction.
  - (e) All audit firms must have any other systems, policies and procedures which are necessary or desirable to reasonably ensure compliance with the requirements of New Zealand auditing and assurance standards relating to FMC audits.
  - (f) Key decisions and judgements involved in an FMC audit must be subject to engagement quality control review by another licensed auditor.
  - (g) Each audit firm must have professional indemnity insurance that is adequate and appropriate for the nature and scale of the audit firm's business activities.

Dated at Wellington this 04 day of December 2020

A handwritten signature in blue ink, reading "A E Vrede", is written over a horizontal line.

Sarah Vrede

Director of Capital Markets

Financial Markets Authority