



## **Policies and guidance for the assessment of applications to be an accredited body**

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## Introduction

1. The Auditor Regulation Act 2011 (the Act) comes into force on 1 July 2012.
2. Under the Act, accredited bodies have responsibility for licensing domestic auditors and authorising the Registrar to register domestic audit firms. Accredited bodies also have responsibility for setting conditions of licences and registration, monitoring compliance with, and investigating suspected breaches of, the Act, auditing and assurance standards, and conditions of licences and registration.
3. The Financial Markets Authority (FMA) has responsibility for prescribing the minimum standards for accreditation, prescribing conditions for accreditation and granting accreditation to persons who meet the standards as accredited bodies.
4. This document:
  - sets out FMA's policies in relation to how it will act in determining applications for accreditation and in imposing, varying, removing or adding to conditions of accreditation (as required by Section 53 of the Act); and
  - explains how to apply for accredited body status.
5. Unless the context otherwise requires, terms and expressions used in this document have the definitions set out in the Gazette Notice prescribing minimum standards for accredited bodies.

## FMA's policies for determining applications

6. Under section 48 of the Act, FMA may grant accreditation if FMA is satisfied the applicant:
  - (a) will implement and maintain audit regulatory systems that are adequate and effective;
  - (b) meets the minimum standards for the grant of accreditation prescribed under section 32(1)(e). FMA prescribed the minimum standards by notice in the *New Zealand Gazette* on 5 April 2012; and
  - (c) is a fit and proper person to perform regulatory functions for the purposes of this Act.

### Key considerations in assessing applications

7. Broadly, to achieve the above, FMA will consider whether an applicant:
  - (a) is a fit and proper person to perform regulatory functions under the Act;
  - (b) has adequate and effective organisational and governance structures;
  - (c) is able to, and will, allocate adequate resources to its regulatory functions;
  - (d) has adequate and effective audit regulatory systems; and
  - (e) has adequate and effective systems, policies and processes for performing all other functions and responsibilities.
8. FMA will consider whether the applicant appears able to meet its accredited body obligations on an ongoing basis.

9. FMA's prescribed minimum standards address organisational and governance structures, allocation of resources and matters supporting the audit regulatory systems. The standards supplement the Act's requirements.
10. The sections of this paper provide some more detailed information about how FMA intends to assess applications against specific requirements of the Act and minimum standards.
11. Section 32(1)(f) empowers FMA to prescribe the procedure accredited bodies must follow when performing regulatory functions. FMA has not, at the time of issuing this guidance, prescribed any procedures. If FMA prescribes such procedures in future, the applicant's ability to carry out these procedures may be taken into account
12. When considering whether an applicant is fit and proper, FMA will take into account:
  - (a) whether the governing body and key individuals within the applicant are fit and proper persons; and
  - (b) the applicant's policies, systems and processes, particularly those relating to the prescribed minimum standards relating to organisational and governance structures.
13. When considering the applicant's policies, systems and processes, FMA will consider whether these include adequate and effective controls, reporting, and consideration of information by management.

#### **Particular circumstances will be taken into account**

14. The circumstances of each applicant will not be identical. FMA staff are available to discuss proposed applications with potential applicants.
15. The accreditation regime requires FMA to exercise discretion and judgement; how it does this will depend on the applicant's particular circumstances. FMA performs a principles-based assessment of the applicant's capabilities, assessing each application on its own merits.

#### **Addressing issues raised**

16. Having examined an application, FMA may decide to make more extensive enquiries to satisfy itself about particular risks or concerns or to determine whether the applicant meets the relevant standard. This is likely to include requesting further information, and may include interviews with relevant personnel. These requests and discussions allow the applicant an opportunity to explain how it meets the requirements in a particular area, or any steps it may take to amend its approach in the light of FMA's enquiries.
17. Where an applicant demonstrates the risks associated with its regulatory functions can be addressed in a different way, FMA may agree to modify the application of this policy for that applicant. In other cases, where there is a particular risk, FMA may put additional conditions and requirements on an accreditation to reflect the individual circumstances. In such cases, the conditions and requirements will be discussed with the applicant to ensure that they address the risk and the applicant is willing to proceed with the application including the additional requirements.
18. In the event FMA considers a particular risk cannot be addressed, and an application should be declined, FMA will inform the applicant in writing before making a final decision. FMA will set out why it is considering declining the application and give the applicant the opportunity to make written submissions or to be heard on the matter.
19. If FMA does reject an application, the applicant may appeal to the High Court within 20 working days of receiving FMA's decision (section 63).

## FMA's policies relating to conditions

20. Under section 49 of the Act, FMA may grant accreditation subject to conditions, comprising:
  - (a) conditions relating to the procedure an accredited body must follow when performing regulatory functions;
  - (b) conditions to ensure the accredited body's audit regulatory systems are adequate and effective; and
  - (c) any other prescribed conditions or conditions that relate to prescribed matters<sup>1</sup>.
21. FMA may impose, vary, remove, add to or substitute any conditions of accreditation upon an accredited body.
22. FMA proposes to apply the same, or very similar, conditions to all accredited bodies. FMA's proposed conditions are set out in Appendix A.
23. FMA may vary these conditions if there is a sound justification for applying a different treatment to an applicant, including to address an area where FMA has identified particular risks or concerns. For example, for an overseas applicant, FMA will consider whether a condition is necessary to ensure it has access to the documents, information and personnel in New Zealand as reasonably requested.
24. Where different conditions are required at accreditation, FMA will endeavour to ensure the overall regulation is equivalent.

### **Deemed accreditation of NZICA**

25. The New Zealand Institute of Chartered Accountants (NZICA) is treated as having been granted accreditation under the Act. FMA is permitted to, and intends to, impose conditions on NZICA consistent with its accreditation policies.

### **Conditions may be varied, removed, or added over time**

26. FMA will vary, remove or add conditions in circumstances where particular matters arise, as revealed in its ongoing monitoring of accredited bodies or as a result of changes in the accredited body or in audit environmental risks. Such matters can often be addressed through constructive dialogue between FMA and the accredited body. However, where matters are significant, the matters may need to be addressed through conditions (for example, if the remedy needs to be an ongoing obligation or to be enforceable).
27. In advance of imposing, varying, removing or adding a condition in respect of an accredited body FMA will discuss the proposed change directly with the accredited body and allow a reasonable time for the accredited body to respond. The aim is to ensure any condition addresses the risk or concern in an efficient way.
28. In imposing, varying to or adding a condition, FMA will take into account whether the condition is proportionate to the risk or concern, or likely to result in excessive costs for the industry.

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<sup>1</sup> The prescribed matters to which conditions may relate under section 49(2)(c) must be prescribed in regulations.

## Right of appeal

29. Applicants and accredited bodies have the right of appeal to the High Court within 20 working days of receiving FMA's decision in respect of conditions (section 63).

## How to apply

30. Applicants seeking accreditation should first notify FMA of their intent to apply.
31. Applicants must submit a letter of application with all necessary supporting documentation. Applications should be addressed to:

Licensing Team  
Financial Markets Authority

**Mail:**  
PO Box 1179  
Wellington 6140

**Visit/Courier:**  
Level 8, Unisys House  
56 The Terrace  
Wellington

**Email:** [auditorregulation@fma.govt.nz](mailto:auditorregulation@fma.govt.nz)

32. Applicants will be required to pay a fee in accordance with the relevant Regulations.
33. FMA expects an applicant to demonstrate how it meets the accreditation requirements, and how it will be able to meet its obligations on an ongoing basis. The Act and the minimum standards together suggest the information FMA requires in order to be able to make an accreditation application assessment. This paper includes specific information to be provided. Applicants can submit other documentation and explanations which allows them to best demonstrate suitability for accredited body status.
34. Applicants should provide only information or documents which are relevant to meeting the standards and requirements, or to the role of an accredited body on an ongoing basis.
35. Applicants must submit certain declarations and consents in respect of key personnel (as set out in the Personnel section). The relevant forms are available on FMA's website.
36. Information held by FMA is subject to the Official Information Act 1982 (OIA). The Financial Markets Authority Act 2011 (FMA Act) imports an obligation of confidence on all information supplied or disclosed to FMA under the FMA Act or any financial markets legislation. This will apply to information provided to FMA in an accredited body's application. In addition, there is likely to be good reason to withhold information provided in applications under the OIA including where it is commercially sensitive.

## Requirement A: governance arrangements, organisational structure, and allocation of resources

37. Accredited bodies need to have an organisational and governance structure that ensures all of the accredited body's regulatory functions can be performed, and are performed, to a high standard, consistent with statutory objectives. Accredited bodies must allocate adequate resources, including personnel, to the performance of its regulatory functions. Accredited bodies also need to perform their regulatory functions with objectivity, impartiality and independence.

### Governance framework

#### Relevant Act requirements

S48 (1) (c)

The FMA may, on an application made by a person, grant accreditation to the person for the purposes of this Act if the FMA is satisfied that the person - (c) is a fit and proper person to perform regulatory functions for the purposes of the Act.

#### Relevant prescribed minimum standards

- (1) *The applicant must have an adequate and effective organisational structure and governance arrangements, which will support the adequate and effective performance of the regulatory functions of an accredited body, including:*
- (a) having an adequate constitution that sets out the responsibilities and authority of the governing body, including providing the governing body with sufficient authority and powers to effectively govern the organisation in accordance with its mandate and objectives and to otherwise ensure the obligations of the organisation are appropriately discharged;
  - (b) having a clearly defined organisational mandate and objectives, which are consistent with the purposes of the Act and provide a basis for the applicant to perform regulatory functions under the Act;

#### Documents required

38. The applicant must provide information and documents which demonstrate how the applicant meets these requirements, including:
- (a) a copy of its certificate of incorporation;
  - (b) if an overseas company, as defined in the Companies Act 1993, a copy of its certificate of registration;
  - (c) its constitution, together with details of any proposed amendments; and
  - (d) documents evidencing its organisational mandate and objectives.



## How FMA will assess this requirement

39. FMA will assess whether the applicant has an appropriate constitution that sets out the responsibilities and authority of the governing body as defined in prescribed standard 1(a).
40. The provisions of the constitution should be fair and reasonable, practically functional, and otherwise in accordance with what a reasonable person would expect of an organisation carrying out regulatory functions in the public interest.
41. FMA will assess whether the applicant has a clearly defined organisational mandate and objectives which meet this standard. In assessing whether this standard is met, FMA will consider:
  - (a) any formal mandate or objectives of the applicant;
  - (b) any restrictions or limitations in the applicant's governing document;
  - (c) any other published statements regarding the purposes and functions of the applicant;
  - (d) the applicant's other activities (particularly in terms of whether they conflict with the purposes of the Act or the functions of the accredited body); and
  - (e) whether the applicant has similar existing functions.
42. In addition, where there are limits on the activities the applicant can undertake, the mandate and objectives must provide a basis for the applicant to perform regulatory functions under the Act.

## Governing body

### Relevant Act requirements

S48 (1) (c)

The FMA may, on an application made by a person, grant accreditation to the person for the purposes of this Act if the FMA is satisfied that the person - (c) is a fit and proper person to perform regulatory functions for the purposes of the Act.

### Relevant prescribed minimum standards

- (1) *The applicant must have an adequate and effective organisational structure and governance arrangements, which will support the adequate and effective performance of the regulatory functions of an accredited body, including:*
  - (c) having a governing body that is responsible and accountable for ensuring the sound management of the entity, and which ensures the sound management of the entity, in accordance with its mandate and objectives, including ensuring audit regulatory systems are adequate and effective, and regulatory functions are appropriately and effectively carried out in accordance with those audit regulatory systems;
  - (d) having adequate and effective requirements, policies and processes regarding the composition of, and appointments to, the governing body, including ensuring that the governing body includes an acceptable number or proportion of appropriate independent directors;

## **Documents required**

43. The applicant must provide information and documents which demonstrate how the applicant meets this requirement, including:
  - (a) a description of the requirements, policies and process relating to nomination, election or appointment, and removal or resignation of members of the governing body (to the extent this is not covered within the applicant's constitution or rules);
  - (b) a description of the applicant's significant systems of governance, including:
    - (i) the applicants processes regarding providing information and advice to the governing body and its members;
    - (ii) the means by which the applicant's management is monitored and held accountable to the governing body;
    - (iii) governing body's decision-making processes; and
  - (c) minutes of the meetings of the governing body for the previous 12 months;
  - (d) copies of any papers, reports, other information provided to the governing body in respect of matters discussed at meetings held during the past 12 months; and
  - (e) a copy of any relevant reports considering the organisation's governance arrangements or the performance of its governing body.

## **How FMA will assess this requirement**

44. FMA expects the governing body of the applicant will have adequate and appropriate powers and resources to properly discharge its duties and responsibilities and carry out its functions.
45. FMA will consider:
  - (a) the regularity with which the governing body of an applicant meets, and how this enables it to properly discharge its duties and responsibilities and carry out its functions;
  - (b) the matters considered by the governing body at its meetings, including the standard of information and advice available to the governing body and the decisions made by the governing body on those matters; and
  - (c) any other information about the effectiveness of the governing body.
46. FMA expects an applicants to have an appropriately composed governing body, including:
  - (a) requirements for an appropriate number of independent directors; and
  - (b) requirements and practices which ensure mix of knowledge, skills and experience including some persons with an audit background or otherwise with an extensive knowledge of auditing.
47. FMA will expect that the rules and process for appointing and removing members of the governing body are fair and transparent.
48. FMA will consider any arrangements the governing body has to evaluate its own composition and performance. FMA will also assess the extent to which, and the process for, implementing remedial measures as necessary to address any inadequacies in its performance.

## Committees

### Relevant prescribed minimum standards

- (1) *The applicant must have an adequate and effective organisational structure and governance arrangements, which will support the adequate and effective performance of the regulatory functions of an accredited body, including:*
- (e) having any committees which are necessary or desirable for the proper and effective governance of the organisation or for the adequate and effective performance of regulatory functions under the Act, including ensuring the role, responsibilities, authority and membership of each of those committees is appropriate, and each committee is subject to appropriate reporting obligations and oversight by the governing body or the applicant's management;
  - (f) ensuring the role, responsibilities, authority, membership criteria, and reporting and oversight arrangements for all committees which have a role in the governance of the organisation or a role in relation to regulatory functions under the Act are set out in the constitution or terms of reference approved by the governing body in accordance with the constitution;

'Committee' means any committee, board, panel or similar body, whether comprised of members of the governing body, staff or external persons, and includes the disciplinary body and any appeals panel.

### Documents required

49. The applicant must provide information and documents which demonstrate how the applicant meets this requirement, including:
- (a) a list of its committees which have a role in the governance of the organisation or a role in relation to regulatory functions under the Act ('relevant committees')
  - (b) in relation to its relevant committees:
    - (i) the terms of reference of each committee and any delegations granted to the committee;
    - (ii) a description of the systems and processes for overseeing the performance and actions of each committee;
    - (iii) minutes of committee meetings for the previous 12 months;
    - (iv) copies of any papers, reports, other information provided to the committee in respect of matters discussed at meetings held during the past 12 months;
    - (v) a list of any documents or material published by each committee (FMA may request that the applicant provide copies of published documents and material); and
    - (vi) a copy of any relevant reports considering the performance of a committee.

## How FMA will assess this requirement

50. FMA expects that an accredited body has a disciplinary body and an audit committee. The further committees and panels an accredited body will require will depend on the design of its audit regulatory systems and governance arrangements. These may include (without limitation) a licensing and membership committee, an education committee responsible for overseeing the promotion of ongoing competence, and an appeals committee.
51. FMA will assess whether the terms of reference for relevant committees provide the committee with adequate scope, responsibility and authority for the purpose the committee was established. FMA will additionally consider whether the relevant committee has the resources and information required to perform its role and functions.
52. FMA will also consider the effectiveness of relevant committees, and the governance arrangements for overseeing the committee's activities.
53. In assessing the applicant's arrangements in this area, FMA will consider:
  - (a) the purpose and functions of relevant committees;
  - (b) the requirements, policies and practices with regard to the composition of relevant committees, and the process for appointing members to those committees;
  - (c) the authority of relevant committees, including the nature and scope of any delegations granted to the committee;
  - (d) the arrangements for ensuring that relevant committees have access to information and advice required for the performance of their functions;
  - (e) the arrangements for ensuring that relevant committees have the resources necessary to perform their role or functions;
  - (f) any requirements, policies and practices regarding delegations made by a relevant committee;
  - (g) the past performance of relevant committees; and
  - (h) arrangements for oversight of relevant committees by the applicant's governing body or management.

## Internal structure

### Relevant prescribed minimum standard

- (1) The applicant must have an adequate and effective organisational structure and governance arrangements, which will support the adequate and effective performance of the regulatory functions of an accredited body, including:
  - (g) having an appropriate internal structure that ensures responsibility for work related to regulatory functions is clearly and appropriately assigned, the authority and powers of staff at each level are clearly defined and appropriate, and the reporting lines and systems for accountability are adequate and effective;

## Documents required

54. The applicant must provide information and documents which demonstrate how the applicant meets this requirement, including:
- (a) a copy of its internal structure, which:
    - (i) shows the internal reporting lines;
    - (ii) identifies key persons and positions; and
    - (iii) includes contract positions; and
  - (b) details of the role and responsibilities, authority and powers, and accountability mechanisms for staff and contractors performing regulatory functions under the Act. It will suffice to provide this information for a team where all persons in that team carry out substantially the same work and have substantially the similar authority, provided any differences are highlighted.

## How FMA will assess this requirement

55. FMA will consider whether responsibility for tasks related to audit regulatory systems and other accredited body functions and obligations under the Act are clearly assigned to appropriate positions within the organisation.
56. FMA will consider the level of seniority of persons assigned key tasks, and how the reporting lines within the organisational structure operate. FMA will also assess the effectiveness of reporting lines and reporting arrangements.
57. In assessing this requirement, FMA will consider both the formal structure and practices and conventions occurring within the organisation. The documents required above should address both where there are differences.

## Delegations

### Relevant prescribed minimum standard

- (1) The applicant must have an adequate and effective organisational structure and governance arrangements, which will support the adequate and effective performance of the regulatory functions of an accredited body, including:
- (h) where the applicant's functions or powers are delegated, having adequate and effective systems, policies and processes for granting and documenting the delegations, ensuring any delegations granted are appropriate, and overseeing the exercise of those delegations.

## Documents required

58. The applicant must provide information and documents which demonstrate how the applicant meets this requirement, including:
- (a) its delegation policy; and
  - (b) details of any existing or proposed delegations relating to the governance of the organisation or to the performance of regulatory functions under the Act.

## How FMA will assess this requirement

59. FMA will consider:
- (a) The process for granting delegations and documenting delegations;
  - (b) the nature and extent of delegations granted to persons of various levels of seniority and various committees;
  - (c) the restrictions and limitations imposed on delegations;
  - (d) processes for ensuring that delegates have the information required to appropriately exercise their delegations; and
  - (e) the requirements and mechanisms for delegates to report to their managers, and ultimately the governing body, on the exercise of delegations.
60. FMA will also assess the controls around the exercise of delegations and the mechanisms to ensure people and committees exercising delegations are accountable for the exercise of those delegations. FMA will be particularly interested in the systems and processes for reporting to the person or body that granted the delegation, and the nature and extent of the information provided through those reporting processes.
61. FMA will consider the appropriateness of existing delegations and the practices around them as part of assessing the effectiveness of the applicant's policies and processes in this area.
62. FMA is interested in delegations in relevant areas at all levels within the organisations, including delegations made by the governing body and relevant committees, and delegations made by managers to other staff and contractors.

## Independence

### Relevant Act requirements

S48 (1) (c)

The FMA may, on an application made by a person, grant accreditation to the person for the purposes of this Act if the FMA is satisfied that the person - (c) is a fit and proper person to perform regulatory functions for the purposes of the Act.

### Relevant prescribed minimum standard

- (2) The applicant must have adequate and effective systems, policies and processes for managing conflicts of interest, which cover members of the governing body, persons appointed to committees, and staff and contractors of the accredited body.

## Documents required

63. The applicant must provide information and documents which demonstrate how the applicant meets this requirement, including:
- (a) a description of the systems and procedures for determining the potential relevant interests of members of the governing body, committees and staff and contractors;
  - (b) policies and procedures for addressing conflicts of interest; and
  - (c) details of any other relationships that the members of the governing body, committees or executive senior management have that have the potential to compromise the applicant's independence.

## How FMA will assess this requirement

64. FMA will assess whether the applicant's policies and processes for identifying and managing potential conflicts of interest are likely to be effective. FMA will expect the accredited body's policies and procedures to apply to all people and bodies which have a role in the governance of the accredited body or in the performance of audit regulatory systems.
65. FMA will be particularly interested in how these policies ensure the independence and objectivity of the disciplinary body and any appeals panel.

## Personnel

### Relevant Act requirements

S48 (1) (c)

The FMA may, on an application made by a person, grant accreditation to the person for the purposes of this Act if the FMA is satisfied that the person - (c) is a fit and proper person to perform regulatory functions for the purposes of the Act.

### Relevant prescribed minimum standards

- (3) The applicant must have adequate and effective systems, policies and processes for ensuring that the members of its governing body, persons appointed to committees, and staff and contractors, with functions or responsibilities relating to the governance of the organisation or to the performance of regulatory functions:
- (a) have the skills, knowledge and experience required of their position or role ; and
  - (b) are fit and proper persons to be involved in the regulation of auditors.
- (4) The applicant must have adequate and effective systems, policies and processes for ensuring that the members of each committee or team responsible for performing regulatory functions collectively have the skills, knowledge and experience required to adequately and effectively perform the functions of that committee or team in accordance with relevant audit regulatory systems.

## **Documents required**

66. The applicant must provide information and documents which demonstrate how the applicant meets this requirement, including:
- (a) a description of the applicant's policies and process for the selection, appointment and removal of members of members of relevant committees, senior managers, and staff and contractors with roles related to the performance of regulatory functions under the Act.
  - (b) in respect of each member of the applicant's governing body, member of a relevant committee, senior manager, and other key employee, a curriculum vitae which details the person's relevant qualifications and experience, and any other matters affecting their suitability for their role.
  - (c) In respect of each person for whom a curriculum vitae is provided, a brief position description for their role;
  - (d) details of any qualification or experience criteria for members of the governing body and relevant committees (to the extent not included in the constitution or terms of reference already provided);
  - (e) declarations from each member of the applicant's governing body, member of a relevant committee, senior manager, and other key employee in the form specified by FMA confirming that they have not been subject to any adverse findings in criminal or regulatory proceedings;
  - (f) for each member of the applicant's governing body, member of a relevant committee, senior manager, and other key employee, a completed consent form for FMA to undertake a criminal record check with the Ministry of Justice;
  - (g) for each member of the applicant's governing body, member of a relevant committee, senior manager, and other key employee, a completed criminal record check in the person's country of residence (except New Zealand);
  - (h) a summary of its policies and practices for training staff;
  - (i) a description of the applicant's process for identifying adverse matters occurring after a person has been appointed to a position;
  - (j) a description of any policies and processes for managing 'key personnel' risk, including undue reliance on one individual; and
  - (k) any policies, processes and practices the applicant has regarding succession planning.

## **How FMA will assess this requirement**

67. An entity's fitness, propriety and capability to perform regulatory functions depends, to a significant extent, on the fitness, propriety and capability of the members of its governing body and relevant committees, senior managers and the persons responsible for performing its regulatory functions.
68. FMA will consider the body's systems and processes for ensuring appointments are appropriate, and will consider the appropriateness of key persons as an example of the effectiveness of the systems and processes.



69. FMA will consider whether all members of the governing body, members of relevant committees, senior management and other key personnel of the accredited body have the skills, knowledge and experience required of their position.
70. Accredited bodies should have a process for identifying the skills, knowledge and experience required by a role, and for ensuring the person appointed to that role has the skills, knowledge and experience required of their position. This will be particularly important for senior managers and certain other key positions. FMA acknowledges that, in some cases, it will not be possible to appoint persons who have all of the skills, knowledge and experience ideally required. The accredited body's policies should address this by identifying what skills and knowledge can be developed, and putting in place appropriate training and education to develop those skills and knowledge.
71. Accredited bodies should also have processes for identifying the skills, knowledge and experience required within a team or on a committee, and ensuring the composition of the team ensures persons with required skills, knowledge and experience are appointed to the team.
72. FMA expects also applicants to have policies and processes to ensure the fitness and propriety of all members of the governing body and relevant committees, and its staff and contractors, both at the time of appointment and on an ongoing basis.
73. FMA proposes to include a condition which requires accredited bodies to consult with FMA on proposed appointments to its disciplinary body and any appeals panel. FMA will assess how the applicant's processes will ensure this condition is met going forward. Similarly, FMA will wish to see how the applicant's processes ensure that FMA is notified of any other appointments it is required to be notified of under the conditions applying to the accredited body.

## General financial resource requirements

### Relevant prescribed minimum standards

- (5) The applicant must be financially sustainable, including
  - (a) having sufficient income to meet its expenses;
  - (b) having sufficient financial resources to meet any necessary, planned or committed capital expenditure (including any costs associated with implementing systems, policies and procedures, or creating or obtaining infrastructure, required for the purposes of the Act); and
  - (c) having sufficient access to funds to accommodate reasonable but unforeseen expenditure demands.

### Documents required

74. The applicant must provide information and documents which demonstrate how the applicant meets this requirement, including:
  - (a) a copy of its audited financial statements for its last five financial years;

- (b) a forecast of income and expenditure, and cash flows, for the next two years, prepared on the assumption that the applicant will be granted accreditation and taking into account the income expenses and capital expenditure associated with becoming an accredited body; and
- (c) a copy of its budget versus actual analysis for the last financial year;
- (d) a copy of its liquidity risk, credit risk and capital risk management policies.

### **How FMA will assess this requirement**

- 75. FMA will assess the applicant's ability to meet this standard on the basis of its current financial position, and forecast cash flows.
- 76. However, in making this assessment, FMA will consider the applicant's track record for financial management and its track record for forecasting its cash flows.

## **Allocation of resource to audit regulatory systems**

### **Relevant Act requirements**

S48 (1) (c)

The FMA may, on an application made by a person, grant accreditation to the person for the purposes of this Act if the FMA is satisfied that the person - (c) is a fit and proper person to perform regulatory functions for the purposes of the Act.

### **Relevant prescribed minimum standards**

- (6) The applicant must allocate sufficient, appropriate resources (including financial, technological, and human resources) for the performance of its audit regulatory systems, such that its regulatory functions can be carried out adequately and effectively.
- (7) The applicant's resourcing arrangements must provide sufficient flexibility to allow for changes to the organisation's audit regulatory systems which are necessary or desirable as a result of changes to external circumstances or where potential improvements are identified.

### **Documents required**

- 77. An applicant must provide information and documents which demonstrate how the applicant meets this requirement, including:
  - (a) details of the numbers of staff and contractors assigned to audit regulatory systems;
  - (b) an explanation of how the accredited body has assessed the number of staff and contractors it requires in particular areas and the adequacy of its staffing arrangements, taking into account:
    - (i) the hours worked by staff assigned to particular functions;

- (ii) other responsibilities and functions of staff assigned to particular functions; and
- (iii) the level of skill and experience of staff assigned to particular functions;
- (c) details of any arrangements in place to increase staff or to reassign staff to particular audit regulatory systems if required to meet increased demand;
- (d) a brief summary of its key infrastructure used to perform regulatory functions under the Act, including its premises (and the facilities at those premises), computer systems, and physical and electronic document management systems, and an explanation of how its key infrastructure adequately supports the performance of its regulatory functions and its other functions and responsibilities as an accredited body;
- (e) where the applicant relies on, or plans to utilise, facilities or services of another entity in relation to its audit regulatory functions, details of the arrangements or proposed arrangements;
- (f) a copy of its disaster recovery plan and a copy of its business continuity plan;
- (g) an overview of the other resources available for the performance of audit regulatory systems;
- (h) details of the resources available to each relevant committee, and an explanation of how the applicant has assessed these resourcing arrangements as being adequate.

#### **How FMA will assess this requirement**

78. The resources allocated to an audit regulatory system will be a significant factor in the effective implementation of that audit regulatory system. FMA will consider the resources assigned to audit regulatory systems in conjunction with considering the design of the audit regulatory systems. FMA will also consider the allocation of resources to audit regulatory systems in conjunction with the accredited body's overall financial forecasts.
79. FMA will assess the sufficiency of available staff to perform regulatory functions within appropriate timeframes. FMA expects that all staff and contractors will be appropriately qualified or trained for their role or position, as discussed above.
80. FMA will assess whether an applicant has identified and provided appropriate infrastructure and facilities for persons performing regulatory functions, including (without limitation) appropriate office space, adequate computer systems and file management systems for managing and retaining information about auditors and audit firms, and access to relevant publications, subscriber databases and other research and educational materials.
81. FMA will also consider whether, and to what extent, the applicant has provided a budget for incidental expenses incurred in the performance of its regulatory functions (for example, travel and accommodation expenses).
82. FMA will also assess whether relevant committees are assigned the resources required for their role or functions. In particular, FMA will consider whether the disciplinary tribunal has adequate resources, including an adequate secretariat.
83. In addition, FMA will consider any arrangements the applicant has, or plans to make, for:
  - (a) contracting additional staff to meet peak demands in relation to particular audit regulatory systems, particularly during the implementation phase;

- (b) outsourcing any part of a audit regulatory system, or any task which is incidental to an audit regulatory system; or
  - (c) hiring facilities on a casual basis, including for training events or disciplinary hearings; and consider whether funding for this has been provided for.
84. FMA expects the applicant's resourcing arrangements will not inhibit the applicant's ability to make improvements to its audit regulatory systems as discussed below in relation to prescribed standards (13) and (14).

## Location of audit regulatory system and associated resources

### Relevant Act requirements

S48 (1) (c)

The FMA may, on an application made by a person, grant accreditation to the person for the purposes of this Act if the FMA is satisfied that the person - (c) is a fit and proper person to perform regulatory functions for the purposes of the Act.

### Relevant prescribed minimum standards

- (8) The applicant must have a physical presence in New Zealand and must identify which of its regulatory functions will be:
  - (a) performed in New Zealand;
  - (b) partially performed in New Zealand, but carried out with support from overseas;
  - (c) performed from outside New Zealand.
- (9) The New Zealand based branch or office must be adequately resourced for the functions carried out at that branch or office.
- (10) Where any regulatory function is performed, or supported, from outside New Zealand, the applicant must ensure that the regulatory function will be performed to at least the same standard as if it were performed wholly in New Zealand, including that audit regulatory systems relating to that function are adequate and effective.
- (11) Where the performance of a regulatory function relies, in whole or in part, on resources or support from outside New Zealand, the applicant must demonstrate that the resources or support will continue to be available for as long as they are required for the adequate and effective performance of that regulatory function.

### Documents required

85. An applicant must provide information and documents which demonstrate how the applicant meets this requirement, including:
- (a) details of its New Zealand offices and the resources and infrastructure located at those offices;

- (b) details of where resources (including personnel and technological resources) for each of its audit regulatory systems are located; and
- (c) an explanation of why it considers its arrangements with regard to the location of resources are appropriate, including (in respect of any audit regulatory systems performed, or supported, from outside New Zealand):
  - (i) why it considers that performing that function outside New Zealand, or with the support of resources located outside New Zealand, will be no less effective than if the functions were performed wholly in New Zealand; and
  - (ii) what mechanisms it has in place to ensure overseas based resources, especially staff, will be, and remain, available to perform, or support, the applicant's audit regulatory systems.

### **How FMA will assess this requirement**

- 86. FMA considers that all accredited bodies should have a place of business and a meaningful presence in New Zealand.
- 87. FMA does not require that all audit regulatory systems be wholly based in New Zealand. However, an applicant whose audit regulatory systems are wholly or partially outside New Zealand must satisfy FMA its proposed arrangements will result in an appropriate regulatory outcome.
- 88. FMA will seek to ensure the accredited body is connected with its New Zealand based membership, and is aware of, and responsive to, the issues which exist in the industry, and the market more generally. On a more specific level, FMA will consider whether the arrangements relating to audit regulatory systems are practical and workable, and will not have an adverse effect on the performance of the accredited body's functions. This will be particularly relevant in relation to:
  - (a) ongoing competence, where an accredited body will be expected to make courses and training available in appropriate locations in New Zealand; and
  - (b) enforcement and discipline, where investigators are likely to need to be in New Zealand for periods during the investigation to meet with the auditor involved, complainants and witnesses and to review documents, and disciplinary hearings will need to be held in New Zealand.
- 89. In respect of overseas personnel, FMA will consider whether overseas staff members with responsibilities related to audit regulatory systems can and are able to, give adequate priority to work required for the effective performance of audit regulatory systems.
- 90. FMA must be able to monitor the regulatory functions of accredited bodies located wholly or partially outside New Zealand. This includes making arrangements for documents, information and personnel to be available in New Zealand as reasonably requested by FMA. FMA may include conditions to ensure that any agreed arrangements remain enforceable.

## Internal compliance procedures

### Relevant prescribed minimum standards

- (12) The applicant must have adequate and effective systems, policies, and processes for ensuring it complies with, and for monitoring its compliance with, its obligations as an accredited body, including:
- (a) having adequate and effective governance of the organisation;
  - (b) having adequate and effective audit regulatory systems; and
  - (c) complying with its conditions of accreditation and its obligations under the Act; and
- for rectifying any detected non-compliance with its obligations as an accredited body or its systems, policies and procedures for meeting its obligations as an accredited body.

### Documents required

91. An applicant must provide information and documents which demonstrate how the applicant meets this requirement, including:
- (a) A description of its systems and processes for monitoring compliance with its obligations as an accredited body;
  - (b) A description of its systems, policies and procedures for addressing any detected non-compliance with obligations as an accredited body;

### How FMA will assess this requirement

92. In assessing an applicant's internal controls FMA considers it essential the compliance monitoring arrangements cover compliance with systems, policies and processes related to the performance of regulatory functions.
93. FMA does not expect that accredited bodies will have plan for dealing with all possible specific incidents of non-compliance with its obligations. However, it should have processes which cover:
- (a) who should be notified of the non-compliance (including when matters should be escalated to the applicant's senior management, particular committees, the governing body, and FMA);
  - (b) how the possible non-compliance should be investigated to establish its nature and extent and who should conduct that investigation; and
  - (c) processes for establishing possible approaches to addressing the breach, and for approving a course of action.

## Continuous improvement of relevant systems

### Relevant prescribed minimum standards

- (13) The applicant must have adequate and effective systems, policies and processes for reviewing and, as appropriate, improving its systems, policies and processes relating to its performance of regulatory functions and its other functions and obligations as an accredited body.
- (14) The applicant must have an adequate and effective process for setting or amending systems, policies and processes relating to its performance of regulatory functions and its other functions and obligations as an accredited body, including policies and processes which ensure appropriate consultation is undertaken.

### Documents required

- 94. An applicant must provide information and documents which demonstrate how the applicant meets this requirement, including:
  - (a) details of the applicant's systems, policies and processes for reviewing its current systems policies and processes with a view to identifying possible improvements.
  - (b) details of the applicant's policies and processes followed when formulating and implementing policies and procedures relevant to the performance of its regulatory functions, including the policies and process relating to consultation with affected parties and taking into account the views of affected parties.

### How FMA will assess this requirement

- 95. FMA expects accredited bodies to undertake a programme of continuous improvement with a view to identifying areas where systems, policies and processes should be adjusted to reflect changes in external circumstances, and to take opportunities to improve the efficiency and effectiveness of systems and processes.
- 96. FMA will assess the processes followed when formulating and implementing new systems, policies and procedures and amendments to its systems, policies and processes relevant to the performance of its regulatory functions. FMA will be particularly interested in the accredited body's policies and procedures relating to:
  - (a) when and how it consults with affected parties, and how it takes into account the views of affected parties; and
  - (b) how new systems, policies and procedures, or amendments to systems, policies and processes, are approved, including who can approve them.

## Membership of relevant international bodies

### Relevant Act requirements

S48 (1) (c)

The FMA may, on an application made by a person, grant accreditation to the person for the purposes of this Act if the FMA is satisfied that the person - (c) is a fit and proper person to perform regulatory functions for the purposes of the Act.

### Relevant prescribed minimum standard

(15) The applicant must be a member of the International Federation of Accountants (IFAC) and be in compliance with the current membership criteria of IFAC.

### Documents required

97. The applicant must provide information and documents which demonstrate how the applicant meets this requirement, including:
- (a) a copy of the applicant's most recent version of the following IFAC Member Body Compliance Program documentation that has been submitted to IFAC:
    - (i) Part 1, Assessment of the Regulatory and Standard-Setting Framework Questionnaire;
    - (ii) Part 2, Statement of Membership Obligations Self-Assessment Questionnaire; and
    - (iii) Part 3, Action plan.
  - (b) a copy of documentation certifying IFAC membership.

### How FMA will assess this requirement

98. FMA will check membership information and review compliance with the current membership criteria of IFAC.

## Standing with other regulators

### Relevant Act requirements

S48 (1) (c)

The FMA may, on an application made by a person, grant accreditation to the person for the purposes of this Act if the FMA is satisfied that the person - (c) is a fit and proper person to perform regulatory functions for the purposes of the Act.



### **Relevant prescribed minimum standard**

- (16) Where an applicant has a regulatory role in relation to accountants or auditors outside New Zealand, the applicant must be in good standing with relevant regulators in the other jurisdictions in which it operates.

### **Documents required**

99. The applicant must provide information and documents which demonstrate how the applicant meets this requirement, including:
- (a) information on which regulatory bodies from other jurisdictions the applicant has dealings with, the nature of their regulatory role in that jurisdiction and their relationship with, or regulation by, that overseas regulatory body;
  - (b) copies of licences held (including conditions);
  - (c) copies of any Memorandum of Understanding or any other similar documentation with those bodies;
  - (d) copies of any oversight reports published by overseas regulatory bodies; and
  - (e) a letter of confirmation from the relevant regulatory bodies from those other jurisdictions that the applicant is in good standing.

### **How FMA will assess this requirement**

100. FMA will review the documentation provided, and may conduct its own reference checking.

## **Other fitness and propriety considerations**

### **Relevant Act requirements**

S48 (1) (c)

The FMA may, on an application made by a person, grant accreditation to the person for the purposes of this Act if the FMA is satisfied that the person - (c) is a fit and proper person to perform regulatory functions for the purposes of the Act.

### **Documents required**

101. The applicant must provide:
- (a) details of any past experience the applicant has in regulating auditors in the public interest, and an assessment of its performance in that role;
  - (b) details of any other matters which are not covered by the preceding standards but are relevant to the applicant's fitness and propriety to perform regulatory functions under the Act.

### **How FMA will assess this requirement**

102. In addition to assessing the adequacy of the applicant's governance structures, personnel and allocation of resources, FMA will consider the track record of the accredited body as an audit regulator. FMA does not require that an applicant have experience regulating auditors. However, where it does have experience, FMA will consider its effectiveness as a regulator. FMA will also take past experience into account in assessing an applicant's ability to implement audit regulatory systems.

## Requirement B: Audit regulatory systems

103. Accredited bodies must have adequate and effective audit regulatory systems that ensure the accredited body performs its regulatory functions in an effective manner consistent with the purposes of the Act, the standards prescribed by FMA, and FMA's plan under section 52 of the Act.
104. For each of these audit regulatory systems, which should cover:
- (a) membership, licensing and registrations;
  - (b) monitoring and general oversight;
  - (c) education and training;
  - (d) complaints, enquiries, investigations and discipline;
- FMA will expect to see written explanations of the accredited body's systems, policies, processes and controls which are sufficiently detailed for committees, staff and contractors to follow, or be guided by, in the course of performing their roles or functions.
105. Throughout this section, FMA will take into account whether:
- (a) the applicant has previous experience regulating auditors in the public interest, including whether the applicant was effective in its performance of that regulation; and
  - (b) whether the accredited body has existing systems, policies and processes which can be utilised or adapted for the performance of audit regulatory systems.
106. Past experience and existing systems will not be determinative of whether or not an applicant meets the relevant standard. However, it may be a factor in whether FMA is satisfied the applicant will be able to implement adequate and effective audit regulatory systems and the policies and processes required to support them.

## Policies relating to audit regulatory systems

### Relevant prescribed minimum standards

- (17) The applicant must have adequate, documented policies regarding the exercise of all key judgements and discretions relating to its regulatory functions under the Act, which reflect the organisation's delegation framework and facilitate effective performance of its regulatory functions, and must have processes for reporting on the application of those policies.

### Documents required

107. The applicant must provide copies of the applicant's policies regarding the exercise of all key judgements and discretions relating to its regulatory functions under the Act;

## How FMA will assess this requirement

108. The following sections of this paper provide an indication as to the areas where we see key judgements and discretions existing. FMA will expect to see that the accredited body has adequate policies covering these areas.
109. As it will be impractical for a policy to cover all possible scenarios, policies may provide guidelines rather than rules. However, policies should not leave decision makers with unfettered discretion. Where policies provide for deviations from the 'standard' approach, there should be:
  - (a) requirement for decision maker to be sufficiently senior;
  - (b) requirement for facts, decisions and reasons to be fully documented; and
  - (c) other appropriate and effective checks and balances.

## Audit regulatory systems - membership, licensing and registrations

### Relevant Act requirements

S48 (1) (a)

The FMA may, on an application made by a person, grant accreditation to the person for the purposes of this Act if the FMA is satisfied that the person - (a) will implement and maintain audit regulatory systems that are adequate and effective

Definitions of regulatory functions

- (d) considering applications for licences, issuing licences, and setting conditions of licences
- (e) considering applications for the registration of audit firms and setting conditions of registration
- (f) adopting, implementing and monitoring codes of ethics

### Relevant prescribed minimum standards

- (18) The applicant must have adequate and effective systems, policies and processes for assessing and approving academic qualifications, and must have a published a list of the academic qualifications which have been approved, for the purposes of the minimum standards for licensed auditors prescribed by FMA under the Act.
- (19) The applicant must have membership criteria, processes for granting membership, and conduct rules which are appropriate and effective in terms of the role of an accredited body and the purposes of the Act.
- (20) The applicant must have adequate and effective systems, policies and processes for approving licensed auditors to act as assessors, and for monitoring the assessment and supervision of prospective licensed auditors by assessors.
- (21) The applicant must have appropriate, documented policies in relation to how it acts, or proposes to act, in imposing, varying removing or adding conditions to auditor licences and audit firm registrations, and must have processes for reporting on the application of those policies.

## **Documents required**

110. The applicant must provide information and documents which demonstrate how the applicant meets this requirement, including:
- (a) documents describing the systems, policies and procedures to perform all of its statutory functions under the Act in respect of the licensing of auditors and registration of audit firms;
  - (b) a copy of its policies regarding areas where the applicant is, or may be, required to exercise discretion or judgement. FMA will expect these policies and procedures to reflect the intention of the prescribed minimum standards set by FMA;
  - (c) documents describing its criteria, policies and processes for approving academic qualifications for the purposes of the prescribed minimum standards for licensed auditors;
  - (d) a copy of its membership criteria, its policies and procedures for considering applications for membership, and its conduct rules (including codes of conduct and codes of ethics);
  - (e) a copy of its policies and processes for amending its membership criteria and its conduct rules (including codes of conduct and codes of ethics);
  - (f) documents describing its policies and processes for approving assessors, and for monitoring the assessment and supervision of prospective auditors by approved assessors;
  - (g) a copy of its policies regarding the conditions to be applied to licensed auditors and registered audit firms.

## **How FMA will assess this requirement – application of minimum standards**

111. FMA will expect an applicants audit regulatory systems to include confirming that:
- (a) an auditor meets all applicable prescribed minimum standards for licensed auditors and is a fit and proper person; and
  - (b) an audit firm is an ordinary partnership, has one or more partners who is a licensed auditor, and meets the all prescribed minimum standards for registered audit firms.
112. In assessing an applicant's systems, policies and procedures relating to the processing of an application FMA will consider matters such as:
- (a) use of application forms for submitting licensing or registration applications, and requirements for attachments and supplementary evidence;
  - (b) processes for seeking further information from auditors and audit firms in connection with their application;
  - (c) policies regarding how the accredited bodies will assess applications;
  - (d) process for consideration and, if appropriate, approval of an application, including who has authority to approve applications;
  - (e) escalation of applications, or specific aspects of applications, where complex issues arise;

- (f) reviews of borderline or deficient applications;
  - (g) timeframes for processing applications, including for notifying the auditor or audit firm and the Registrar (if approved) of the decision;
  - (h) determining the period for which an auditor will be issued a licence, including a policy regarding the factors which may affect the duration of a licence and how these factors will be assessed and taken into account;
  - (i) internal controls over the process; and
  - (j) processes for amendments to and renewals of licences and registrations.
113. The following highlights further areas FMA will assess in relation to the applicants systems, policies and procedures for applying particular minimum standards for auditors and audit firms.

***Academic qualifications***

114. FMA will review the applicant's policies and procedures for approving qualifications and consider the effectiveness of these policies and procedures. In addition to a published list of approved qualifications, FMA will be looking for policies and procedures that include:
- (a) established standards relating to the delivery of courses, including:
    - (i) The requirements for specific papers or learning outcomes to be included; and
    - (ii) requirements relating to the standard of teaching and assessment of students; and
  - (b) any other requirements for academic courses or the institutions which run them;
  - (c) how the applicant assesses academic courses and institutions against the criteria set; and
  - (d) how the applicant ensures the qualification or institution continues to meet the required standards after having been approved, whether it conducts periodic reviews or reassessments of approved qualifications.
115. The criteria and process applied by accredited bodies should be sufficiently rigorous to reasonably ensure approved academic qualifications meet a sufficiently high standard. However the criteria applied should not unreasonably exclude qualifications which would be adequate.
116. FMA will review the applicant's process for assessing whether an auditor who has not completed an approved academic qualification has knowledge and expertise equivalent to that expected of a licensed auditor who has completed an approved academic qualification. This would include reviewing the applicants policies and processes for assessing whether:
- (a) a degree or other qualification which is not on the approved list (including an overseas qualification) is equivalent to an approved academic qualification; and
  - (b) an auditor who has qualified as a Chartered Accountant or the equivalent designation with another professional body, or has been licensed as an auditor in an overseas jurisdiction, without a degree has attained a level of knowledge and expertise which is equivalent to a person with an approved academic qualification.

### ***Membership of an accredited body***

117. FMA requires that an applicant has membership criteria and conduct rules (including codes of ethics or codes of conduct) which are appropriate in terms of its sought role as an accredited body and the purposes of the Act. FMA expects that the accredited body's membership criteria and conduct rules will be fair and reasonable, and linked to promoting high quality professional accounting and auditing services.
118. An accredited body's membership criteria should not:
  - (a) be inconsistent with the prescribed standards for licensed auditors; or
  - (b) unnecessarily restrict entry into the auditing profession.
119. An accredited body's conduct rules must be consistent with purposes of Act, the accredited body obligations under Act, and FMA's plan relating to auditor regulation.
120. FMA will also consider the accredited body's processes for changing its membership criteria and for setting or changing conduct rules (including codes of ethics or codes of conduct).

### ***Practical competency***

121. The assessment of an auditor's competence is critical to the licensing process. Accordingly, how an accredited body assesses competence, and how it ensures any recommendation made by an assessor is informed and objective assessment, will be a significant focus.
122. FMA will also review the policies and processes for approving assessors, and processes for monitoring the performance of approved assessors to ensure the assessor is making appropriate assessments as to prospective auditors' competence.

### ***Fit and proper requirements***

123. The assessment of fitness and propriety of licensed auditors (and also partners of audit firms) will be a key area of judgement which FMA expects accredited bodies to have a policy on. FMA expects this policy to include criteria against which auditors will be assessed.
124. Applicant must have robust procedures for assessing and verifying whether a licence applicant meets the fit and proper requirements prescribed by the Act.
125. In particular, FMA will consider whether the accredited body's systems, policies and procedures addresses a sufficiently broad range of matters, and whether they effectively ensure the accredited body has sufficient information about any matters to make an informed decision about its relevance.
126. FMA will also consider an applicant's processes and procedures for independently verifying there are no adverse matters which the licence applicant has failed to disclose.
127. FMA will consider the adequacy of an applicant's policies and processes relating to the assessment of any potentially adverse matters raised, and determination of whether the person is a fit and proper person to be issued a licence.

### ***Partners of audit firm***

128. In relation to the minimum standards for audit firms which require a percentage of partners of the firm to members of a professional body, FMA will consider the applicant's policies with regard to what it recognises as an 'appropriate professional body' and an 'appropriate accounting professional body'.

129. The policy should include appropriate criteria for professional bodies, including:
- (a) The body has entry criteria and conduct rules which are aimed at promoting high standards of ethics and professional conduct;
  - (b) The body has the ability to enforce its conduct rules, including to expel members in appropriate circumstances; and
  - (c) Where the body is an accounting professional body, the body is a member of IFAC and is in compliance with the current IFAC membership criteria.

***Systems and processes for ensuring high quality audits***

130. An applicant will need to have adequate and effective systems and processes for assessing the extent to which an audit firm's systems, policies and processes:
- (a) comply with the professional and ethical standards set by the External Reporting Board;
  - (b) otherwise include any systems, policies and processes required to ensure compliance with auditing and assurance standards;
  - (c) are appropriate for the nature and scale of the firm's audit and assurance business; and
  - (d) otherwise promote high quality audits.
131. FMA will expect an applicant to demonstrate it has staff within the team responsible for processing licence and registration applications who have a comprehensive understanding of the systems and processes which are, and which should be, adopted by audit firms.

***Indemnity insurance***

132. An applicant must have appropriate policies and procedures for determining the adequacy of an audit firm's professional indemnity insurance.
133. FMA does not consider it sufficient to rely on an audit firm to self-certify the adequacy of their cover. FMA will expect accredited bodies to make an assessment, having regard to factors such as the size and risk of the audit firm's audit and assurance clients, its track record for claims under indemnity policies, and the conditions attaching to an indemnity policy. An applicant must demonstrate it has staff, or professional advisers, who have the knowledge and experience to assess the adequacy of professional indemnity insurance arrangements.

**How FMA will assess this requirement – setting of conditions**

134. FMA expects an applicant to have policies and procedures to determine what conditions to attach to licences. This will include:
- (a) determining the kinds of issuers which the applicant should be licensed to audit (which should reflect competence and experience);
  - (b) determining how mandatory conditions (ie conditions of the kinds FMA has prescribed must be attached to licenses) will be applied; and
  - (c) determining whether, and how, discretionary conditions (ie conditions of the kinds FMA has prescribed may be attached to licences) will be applied.
135. FMA also expects an applicant to have policies and procedures to determine what conditions to attach to audit firm registrations.



136. FMA will also consider the extent to which the specific conditions provide consistency, both within the pool of auditors licensed by that accredited body and across the licensing approaches taken by different accredited bodies and FMA.
137. FMA expects an applicant's processes will include confirming that a prospective licensed auditor is able to meet the conditions the accredited body proposes to attach to the licence, including where appropriate making its own assessment of the auditor's ability to comply.

## **Audit regulatory systems - monitoring and general oversight**

### **Relevant Act requirements**

#### S48 (1) (a)

The FMA may, on an application made by a person, grant accreditation to the person for the purposes of this Act if the FMA is satisfied that the person - (a) will implement and maintain audit regulatory systems that are adequate and effective

Definitions of regulatory functions

- (a) adopting, implementing and monitoring codes of ethics
- (b) monitoring compliance with auditing and assurance standards

### **Relevant prescribed minimum standards**

- (22) The applicant must have adequate and effective systems, policies and processes for:
  - (a) monitoring licensed auditors' and registered audit firms' compliance with conditions of license and registration, respectively;
  - (b) monitoring continued compliance with the minimum standards for licensed auditors and registered audit firms;
  - (c) monitoring compliance with other requirements applying to licensed auditors or registered audit firms under the Act and any other enactment that relates to the conduct of issuer audits;
  - (d) monitoring compliance with the applicant's conduct rules by licensed auditors; and
  - (e) identifying and monitoring other current or emerging issues in the audit profession.
- (23) The applicant must have adequate and effective processes for developing and implementing strategies to address, or mitigate, issues of non-compliance or other matters of concern, including those identified through complaints and monitoring.

## Documents required

138. An applicant must provide information and documents which demonstrate how the applicant meets this requirement, including:
- (a) a copy of its systems, policies and processes for:
    - (i) monitoring compliance with auditing and assurance standards in the performance of issuer audits;
    - (ii) monitoring auditors and audit firms as to their ongoing compliance with conditions of license and registration, respectively;
    - (iii) monitoring continued compliance with the minimum standards for licensed auditors and registered audit firms;
    - (iv) monitoring compliance with other requirements under the Act and any other enactment that relates to the conduct of issuer audits;
    - (v) monitoring compliance with the applicant's conduct rules by licensed auditors; and
    - (vi) identifying and monitoring other current or emerging issues in the audit profession;
    - (vii) developing and implementing strategies to address, or mitigate, issues of non-compliance or other matters of concern identified through complaints and monitoring; and
  - (b) a copy of its compliance monitoring plan; and
  - (c) a copy of its risk framework for identifying current and emerging risks.

## How FMA will assess this requirement

139. FMA will consider the nature of any proposed monitoring work to be conducted by the applicant, and assess the adequacy of that work and the effectiveness of the applicant's systems and procedures for carrying out that work. FMA will also assess the adequacy of the applicant's risk framework for identifying current and emerging issues.
140. FMA does not require accredited bodies to undertake full practice reviews which would substantially duplicate work undertaken for quality reviews. Accordingly, FMA expects that monitoring of the systems, policies and procedures of auditors and firms and the conduct of issuer audits will focus on targeted monitoring (particularly related to current or emerging issues). FMA additionally expects accredited bodies monitoring will cover the other areas noted above, including compliance with conditions and its conduct rules (including codes of conduct and codes of ethics).
141. FMA will assess the extent to which the accredited body's systems, policies and processes for monitoring will address the specific impacts, outcomes and outputs set in FMA's current plan for oversight and regulation of auditors, and provide the flexibility to address specific impacts, outcomes and outputs set in subsequent plans.
142. FMA will assess how an applicant develops and implements strategies to address, or mitigate, issues of non-compliance and other matters of concern identified through complaints and monitoring. This will include circumstances where disciplinary action is not appropriate as the sole or primary response or does not wholly address the issues.

143. FMA expects an accredited body to be able to obtain all information the accredited body requires for the purposes of its monitoring activities, including information about clients of licensed auditors and registered audit firms. FMA will also expect the accredited body to be able to provide to FMA all information it holds in connection with its monitoring activities, including information about licensed auditors and registered audit firms, and their clients. Arrangements will need to address information to which the Privacy Act applies, and use of confidentiality agreements by auditors and audit firms.

## Audit regulatory systems - education and training

### Relevant Act requirements

#### S48 (1) (a)

The FMA may, on an application made by a person, grant accreditation to the person for the purposes of this Act if the FMA is satisfied that the person - (a) will implement and maintain audit regulatory systems that are adequate and effective

#### Definitions of regulatory functions

- (e) promoting, monitoring and reviewing the ongoing competence of members

S18 (1) An accredited body must, in accordance with the requirements prescribed under section 32(1)(c) –

- (a) require its members to complete competence programmes to maintain their ongoing competence; and
- (b) otherwise promote, monitor and review the ongoing competence of its members.

S19 (1) If any member who is required to complete a competence programme does not satisfy the requirements of the programme, the accredited body may –

- (a) vary, remove, add to, or substitute any conditions of the member's licence under section 15; or
- (b) may suspend the member's licence under section 21

(2) This section does not limit sections 15 and 21.

### Documents required

144. An applicant must provide information and documents which demonstrate how the applicant meets this requirement, including:
- (a) a copy of its systems, policies and procedures for promoting and monitoring the ongoing competence of its licensed auditors and addressing failures, particularly repeated failures, to complete continuing education requirements.

## How FMA will assess this requirement

145. FMA will consider whether:
- (a) Courses, seminars, conferences and other structured training (which is external to a particular audit firm) are, and are seen by the industry to be, of a high quality and well tailored to the needs of the industry, and are seen by the industry to be reasonably priced for the nature of the course.
  - (b) Courses are offered at appropriate locations in New Zealand, particularly where physical attendance is required or preferable. FMA expects a reasonable number of courses to be run in New Zealand. However, this does not prevent an accredited body from also inviting New Zealand based licensed auditors to attend courses run overseas or from offering courses by remote access technology such as video conferences or webinars.
  - (c) The extent to which courses are also open to auditors licensed by other accredited bodies and overseas licensed auditors, the broader audit profession, and (where appropriate given the nature of the course) non-auditors interested in the subject matter.
146. FMA does not require accredited bodies to run every course offered to its members. Rather, accredited bodies may work with other training providers to make courses available.
147. FMA will also assess the applicant's policies for taking action against licensed auditors who fail to meet the ongoing competence requirements.

## Audit regulatory systems – complaints, enquiries, investigations and discipline

### Relevant Act requirements

S48 (1) (a)

The FMA may, on an application made by a person, grant accreditation to the person for the purposes of this Act if the FMA is satisfied that the person - (a) will implement and maintain audit regulatory systems that are adequate and effective

Definitions of regulatory functions

- (f) inquiring into the conduct of members and audit firms:
- (g) investigating complaints against members, audit firms, and former members:
- (h) hearing complaints about, and taking disciplinary action against, its members and former members and audit firms:
- (i) dealing with appeals from decisions of the disciplinary body

### **Relevant prescribed minimum standards**

- (24) The applicant's systems, policies and processes must ensure that principles of natural justice are applied at all times in relation to handling complaints, conducting enquiries and investigations, and conducting disciplinary proceedings (including appeals in relation to disciplinary proceedings).
- (25) The applicant's systems, policies and processes must ensure accountability and transparency in relation to handling complaints, conducting enquiries and investigations, and conducting disciplinary proceedings (including appeals in relation to disciplinary proceedings).
- (26) The applicant's systems, policies and processes relating to disciplinary proceedings, including decisions whether to commence disciplinary proceedings, must ensure a principled, fair and consistent approach to addressing misconduct.
- (27) The applicant must have a sufficiently independent disciplinary body to adjudicate on alleged breaches of:
  - (a) auditing and assurance standards;
  - (b) the Act or any other enactment that relates to the conduct of issuer audits;
  - (c) the accredited body's conduct rules; or
  - (d) conditions of licences or registration.
- (28) Any appeals panels must be sufficiently independent, including of the disciplinary body and any other appeals panels who have previously considered matter before it.
- (29) The range of penalties which may be imposed by the disciplinary body and any appeals panels must include penalties which are sufficiently stringent to address the most serious breaches, and must include a scale of penalties which ensures a proportionate penalty can be imposed in relation to all breaches.

### **Documents required**

- 148. An applicant must provide information and documents which demonstrate how the applicant meets this requirement, including a copy of its systems, policies and procedures for:
  - (a) receiving, considering and responding to complaints about licensed auditors and registered audit firms;
  - (b) conducting enquiries and investigations into the conduct of licensed auditors and registered audit firms, and, as appropriate, taking disciplinary action;
  - (c) taking disciplinary action against licensed auditors and registered audit firms for breach of their obligations, including a description of the disciplinary body and its rules and processes;
  - (d) imposing penalties and making other orders against auditors and audit firms who have been found to have breached their obligations as a licensed auditor or registered audit firm;
  - (e) handling any appeals relating to the disciplinary action taken against licensed auditors and registered audit firms.

### **How FMA will assess this requirement – complaints, enquiries and investigations**

149. FMA will assess how the applicant considers complaints, escalates them into enquiries or investigations (where appropriate), and responds to complainants on the matters raised. Systems, policies and procedures should include timeframes for considering and responding to complaints.
150. FMA will expect the applicant's policies to clearly show when the applicant would commence enquiries and investigations into the conduct of auditors and audit firms, and will consider whether its policy also covers when an enquiry into a matter is escalated into an investigation. These should address possible breaches raised as a result of complaints and referrals, the accredited body's monitoring of auditors and audit firms, and any other sources.
151. FMA will assess the applicant's systems, policies and processes for conducting enquiries and investigations, including:
  - (a) its policies and processes for the selection of the persons conducting the investigation;
  - (b) its legal and procedural processes to be followed, including steps to ensure that principles of natural justice are applied to all investigations;
  - (c) its policies and guidance as to when the accredited body should exercise particular powers or rights;
  - (d) its policies and guidance as to when matters should be referred, or notified, to other regulators (including FMA), or assistance should be sought from other regulators; and
  - (e) its policies and guidance as to when matters should become subject to disciplinary proceedings;
  - (f) the accountability and transparency arrangements for the investigation, including in respect of announcing the results of the investigation.
152. FMA acknowledges policies relating to the conduct of enquiry and investigation will need to retain sufficient flexibility to ensure the circumstances of a particular case can be taken into account by the people conducting the enquiry or investigations into that case, and the case can be investigated in an appropriate manner.
153. FMA is particularly interested in the applicant's policies and processes for ensuring conduct of enquiries and investigations is fair and reasonable, both to the auditor or audit firm concerned and to any aggrieved parties, and for ensuring the principles of natural justice are applied. FMA will consider whether policies and processes ensure investigators assigned to a matter are independent and objective, and the auditor or audit firm concerned is (at an appropriate stage in the enquiry or investigation) advised of the allegations and given an opportunity to respond. FMA will also consider any policies and processes relating to announcements or public statements about investigations, or conduct or incidents which are the subject of an investigation, during or after the investigation.
154. FMA will assess the applicant's policies relating to when investigations will result in disciplinary proceedings being pursued, and when (other than cases where there proves to be no misconduct) disciplinary action will not be pursued. FMA will consider whether these policies are consistent with the auditor oversight plan (being prepared by FMA under section 52 of the Act). FMA will also consider the systems and processes for determining what

action to take in a particular case. In particular, FMA will expect systems, policies and processes in this area ensure fair, consistent and principled treatment of cases.

### **How FMA will assess this requirement – disciplinary proceedings and appeals**

155. FMA expects an applicant will have appropriate systems, policies, and processes for taking disciplinary action against auditors and audit firms for breach of licensing or registration requirements or breach of professional obligations.
156. FMA requires accredited bodies to have a sufficiently independent disciplinary body to adjudicate on alleged breaches by licensed auditors and registered audit firms, and expects the accredited body's systems, processes and procedures in this area will primarily relate to proceedings before this disciplinary body and any appeals panel. However, should the accredited body have any mechanisms for taking disciplinary action without the matter first being considered by its disciplinary body, these will need to be included in the accredited body's systems policies and processes and will be assessed by FMA.
157. FMA will consider the powers and jurisdiction of an accredited body's disciplinary body, the legal and procedural arrangements to be applied, and the accountability and transparency arrangements to be applied (including its practices in relation to publishing the outcome of proceedings). FMA will be interested in the process for selecting members to hear a particular case, processes for managing conflicts of interest in relation to particular cases, and rules and policies regarding the composition of the divisions hearing a particular case.
158. FMA will assess whether the procedures of the disciplinary panel provide the auditor who is the subject of the proceedings with a reasonable right to be heard on the alleged breaches, including considering whether :
  - (a) the auditor is adequately advised of the allegations against them, and the evidence relevant to the allegations;
  - (b) the auditor has the right to be legally represented before the disciplinary body;
  - (c) the auditor has the right to make oral or written submissions (or both);
  - (d) the auditor has the right to present further evidence in their defence or in mitigation;
  - (e) the auditor has the right submit questions to be put to witnesses; and
  - (f) timeframes between the auditor being advised of the allegations against them and their deadline for responding are reasonable.
159. FMA will consider whether the body responsible for taking disciplinary action has available to it sufficiently stringent penalties to address serious breaches, and policies which ensure the penalty is proportionate to the seriousness of the breach. FMA considers cancellation of a licence combined with other penalties, such as censure and pecuniary penalties, will be sufficiently serious to address most serious breaches. However, FMA will also be looking to see the range of penalties and remedies available, including whether the disciplinary body can impose pecuniary penalties, compensation orders, targeted restrictions on future actions, additional conditions or requirements, and public censures or warnings. Where financial penalties or remedies are available, FMA will consider the adequacy of any restrictions on the amounts of those penalties or remedies.

160. In addition to considering the range of penalties and remedies available, FMA will also consider the applicant's and its disciplinary body's policies and practices relating to the use of those penalties and remedies. FMA expects accredited bodies will have sentencing guidelines which utilise the full range of penalties available to it in appropriate circumstances.
161. FMA will also assess the nature of any appeal arrangements in place, or proposed to be put in place, to ensure the process and body responsible at least meet the minimum requirements set out for the disciplinary body. Additionally that all persons involved in an appeal are independent of the persons who decided the matter when it was before the disciplinary body.
162. The Act provides a right of appeal to the District Court where there is no right of appeal under the accredited body's rules. Appeals to the District Court are likely to be more expensive and onerous for the auditor concerned. Accordingly, FMA considers it preferable that accredited bodies have an appeals process.
163. Accredited bodies may, but are not required to, have more than one tiered right of appeal. Where an accredited body offers more than one right of appeal, the above requirements will apply to, and be assessed for, each appeal panel.

## **Systems, policies and processes for meeting other accredited body obligations**

### **Relevant prescribed minimum standards**

- (30) The applicant must have adequate and effective systems, policies and procedures which will enable it to comply with its conditions of accreditation, and to otherwise perform its functions and meet its obligations under the Act.

### **Documents required**

164. The applicant must provide information and documents which demonstrate how the applicant meets this requirement, including documents describing the applicant's systems, policies and processes for:
  - (a) complying with conditions of accreditation;
  - (b) preparing and submitting an annual report in accordance with section 51 of the Act;
  - (c) confirming at least annually with its members that the information recorded on the register is correct, providing updated information to the Registrar as required, and completing the annual confirmation required under section 43 of the Act; and
  - (d) meeting all obligations, and performing all functions, of an accredited body under the Act which are not covered by the preceding sections of this policy.

### **How FMA will assess this requirement**

165. FMA expects an applicant will have systems and processes which facilitate these obligations being complied with on time and in a meaningful way.



166. FMA will also consider the applicant's systems and processes for:
- (a) ensuring licensed auditors provide updates to their details in a timely manner and passing this information through to the Registrar as required by the Act; and
  - (b) ensuring the people responsible for carrying out regulatory functions provide comprehensive information on the performance of those functions to the people responsible for reporting to FMA, and that the reports provided meet the applicant's obligations on time and in a meaningful way.
167. FMA does not intend to reassess, under this prescribed minimum, matters which are assessed under other statutory requirements or minimum standards.

## Appendix A: Proposed conditions for accredited bodies

168. FMA proposes the following conditions for all accredited bodies:
- (a) The accredited body must comply, on an ongoing basis, with the minimum standards for granting accreditation<sup>2</sup>;
  - (b) The accredited body must promptly notify FMA of any events, circumstances or actions by any party that may prevent or impede the accredited body's performance of its regulatory functions;
  - (c) The accredited body must promptly notify FMA of any proposed significant change to the audit regulatory systems of the accredited body;
  - (d) The accredited body must maintain appropriate organisational and governance structures, conducive to maintaining adequate and effective audit regulatory systems;
  - (e) The accredited body must ensure audit regulatory systems are adequately resourced at all times;
  - (f) The accredited body must, within three months of the end of its financial year, provide FMA with a copy of its audited financial statements for that financial year;
  - (g) The accredited body must promptly notify FMA of any appointment, resignation or dismissal, of a member of the governing body, a senior manager, or other key personnel;
  - (h) The accredited body must have processes which provide for FMA to confirm appointments of members to its disciplinary body, and to be involved in the appointment of members of its appeals panel;
  - (i) The accredited body must promptly notify FMA of any action taken by an overseas regulatory body against the accredited body;
  - (j) The accredited body must promptly notify FMA of any breach of auditing and assurance standards, conditions of license or registration, the professional body's rules or code of ethics, or any other requirement under the Act by a licensed auditor (or a person who was a licensed auditor at the time of the breach), a registered audit firm, or any other person in relation to an issuer audit, together with an explanation of the action the accredited body has taken or proposes to take;
  - (k) The accredited body must promptly notify FMA of any cancellation of a licence (including at the request of the licensee), together with the reason for that cancellation; and
  - (l) The accredited body must promptly notify FMA if it becomes aware of any breach of the Financial Reporting Act by, or in relation to, an issuer.

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<sup>2</sup> In the case of NZICA who is deemed accredited, it would need to satisfy FMA it meets those standards to satisfy this condition.