

Guidance on information disclosure requirements for licensed auditors and registered firms

May 2017

Introduction

Licensed auditors and registered firms may be required to provide information to NZICA in the following circumstances:

- Responding to ad hoc information requests under Rule 10.14 of the NZICA Rules;
- Continuous disclosure requirements;
- Annual disclosure requirements; and
- In connection with a practice review.

This document provides guidance to licensed auditors and registered firms on the timely provision of the required information with the exception of practice review which is outside the scope of this guidance.

The information required by NZICA may change from time to time based on emerging risks and regulatory priorities. NZICA will notify firms of any such changes.

Ad Hoc Information requests

Rule 10.14 of the NZICA Rules provides:

“Any member who is involved in undertaking Issuer Audit work, or who is a partner, director, or employee of a firm involved in undertaking an Issuer Audit, must provide the Institute with any information requested by the Institute for the purpose of the Institute performing any functions or satisfying any obligations under the Auditor Regulation Act”.

NZICA may request such information where it considers it necessary for the purposes of its functions under the ARA. It is not possible to list all circumstances where ad-hoc information may be required. However, some examples include:

- Requesting further details of information provided in an annual survey or through the continuous disclosure requirements;
- Requesting CPD records as part of the annual monitoring review;
- Requesting clarification of circumstances identified through a review of audited financial statements;
- Requesting clarification of information obtained by NZICA from other sources such as press comment or other regulatory communications.

Where appropriate, NZICA may communicate with FMA before requesting information from a member under Rule 10.14 to minimise duplication of regulatory enquiries.

Where we request information from a licensed auditor or other member under this Rule we will indicate when we expect to receive the information requested. The member may request an extension of time which may be granted at our discretion.



Licensed auditors

Continuous disclosure

Individual licensed auditors must notify us of the following changes:

- Leaving or joining an audit firm;
- Becoming or ceasing to be a partner or director in an audit firm;
- Any changes required to the information in the public register (name, and contact details etc.);
- Any issue that may affect fit and proper status; and
- Any disciplinary action by any professional body.

Note that “director” means a director of a corporate firm in terms of the Companies Act definition. Some firms describe senior staff members below partner level as “directors”. Such staff members are not considered directors for disclosure purposes unless they meet the Companies Act definition of director.

Disclosures should be made by email to regulation.nzica@charteredaccountantsanz.com.

Although the obligation falls on individual licence holders we would expect that disclosures would normally be co-ordinated through the firm. If the firm has made a notification we do not expect the licence holder to notify us as well.

We expect notification to be made on a timely basis. Table 1 provides guidance on a reasonable time frame for notification.

Table 1 Licensed Auditors

| Matter | Expected notification |
|--|--|
| Matters relating to fit and proper status or disciplinary action | Immediately and no later than 5 working days from the matter arising or becoming aware of the matter |
| Matters requiring a change to the information on the public register, such as name or contact details or joining or leaving a firm | Within 20 working days of the change or becoming aware of the change |

Annual disclosure

On an annual basis we require licensed auditors to provide certain confirmations including:

- Confirmation that the details entered in the public register remain accurate;
- Confirmation of compliance with the standard conditions and any additional conditions that apply to the auditor’s licence;
- Confirmation of compliance with the continuous disclosure requirements;
- Confirmation that the auditor is not aware of any matter which may impact on their fit and proper status; and
- Confirmation of compliance with the CPD requirements applicable to licensed auditors.

In addition, where a licensed auditor undertakes FMC audits as a sole practitioner (i.e. not through a registered audit firm) we require the auditor to advise us of this fact.

We intend to include these confirmations in the online mandatory notifications. We expect licensed auditors to complete these notifications, including the annual disclosures, by 31 July each year.

Registered audit firms

Continuous disclosure

Registered firms must notify us of the following information:

- Any changes required to the information in the public register (name, and contact details etc.);
- FMC audits that have been accepted or resigned;
- FMC audits the firm has been asked to accept or bid for where the firm has declined;
- Other changes in the FMC audits including changes in engagement partner and/or EQCR;
- Significant changes in the terms or amount of professional indemnity insurance cover held in respect of FMC audit work, including any FMC audits for which cover has been declined or provided subject to conditions;
- Partners or directors joining or leaving the audit firm (including non-audit partners and directors);
- Any matter which may impact on the fit and proper status of any partner or director (including non-audit partners or directors); and
- Details of any significant adverse findings of internal or external reviews of the firm’s audit practice including steps taken to implement any recommendations together with an explanation where recommendations have not been actioned.

Note that “director” means a director of a corporate firm in terms of the Companies Act definition. Some firms describe senior staff members below partner level as “directors”. Such staff members are not considered directors for disclosure purposes unless they meet the Companies Act definition of director.

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We expect firms to make disclosures in a timely manner taking into account the significance of the matter. Table 2 provides guidance on a reasonable time frame for notification.

Table 2 Registered Audit Firms

| Matter | Expected notification |
|---|--|
| Matters relating to fit and proper status or disciplinary action | Immediately and no later than 5 working days from the matter arising or becoming aware of the matter |
| Matters adversely impacting professional indemnity cover including denial of cover or cover subject to significant conditions | Immediately and no later than 5 working days from the matter arising or becoming aware of the matter |
| Matters requiring a change to the information on the public register, such as name or contact details | Within 20 working days of the change or becoming aware of the change |

| Matter | Expected notification |
|--|--|
| Changes in partners and directors who are licensed auditors | Within 20 working days of the change or becoming aware of the change (because it requires amendment to the auditor's entry on the public register) |
| Changes in partners and directors other than licensed auditors | Quarterly disclosure is acceptable |
| FMC audits that the firm has accepted or resigned or where the firm has been asked to accept or bid and has declined | Quarterly disclosure is acceptable |
| Changes in engagement partner and/or EQCR in relation to an FMC audit | Quarterly disclosure is acceptable |
| Significant adverse review findings | Quarterly disclosure is acceptable unless the findings indicate a fit and proper issue |

Annual disclosure

Registered audit firms are required to complete an annual survey providing information about the firm and its audits. This is normally sent out to firms in July and firms are required to complete and return the survey by 30 September.

The annual survey requires firms to provide the following:

- Confirmation of compliance with the firm's conditions of registration;
- Confirmation of compliance with the FMA prescribed minimum standards;
- Confirmation of compliance with the continuous disclosure requirements;
- Confirmation that the firm has professional indemnity insurance that is adequate and appropriate; and
- Information regarding the firm's FMC audits.

For the 2017 survey NZICA will request the following information regarding each firm's FMC audits:

- Full legal name of the entity [note 1];
- Company office or other registration number [note 1];
- Balance date;
- Whether the client has any securities (debt or equity) listed on the NZ stock exchange;
- Whether the engagement is completed on behalf of the Auditor-General;
- Whether the entity is considered to have a higher level of public accountability under Section 461K of the Financial Markets Conduct Act 2013 [note 2];
- Name of the Engagement partner;
- Name of the EQCR;
- Audit fees charged for the previous completed engagement [note 3];
- Non-assurance fees charged for the previous completed engagement [note 4];

- If no audit has been completed previously, an estimate of the expected audit fee and non-assurance fees for the first financial year for which the firm will perform the audit [notes 3 & 4]; and
- Any other relevant notes such as the first or last year of the audit or any upcoming changes including planned rotation.

Notes

1. If the firm's systems do not include the full legal name of the entity, the firm may provide the name used internally. The Companies Office or other registration number is not mandatory but is helpful in identifying the entity where the name provided does not match the relevant register. If NZICA is unable to identify an entity from the information provided it may request additional information from the firm.
2. We encourage firms to maintain their own record of entities with higher and lower public accountability for their own risk management purposes. However we recognise that firms' systems may not currently capture this information. The information should be provided if it is reasonably available within the firm's systems.
3. Firms are required to provide the total fee charged as this is important to give an indication of the relative scale of the audits. Where the firm's systems do not capture the latest actual fee a reasonable estimate or budgeted fee may be given instead.
4. Information regarding non-assurance fees is important in considering possible independence threats arising from the provision of such services. NZICA encourages firms to monitor such fees as part of their own risk management procedures. If the information is not reasonably available from the firm's systems NZICA will not regard it as a breach if the information is omitted. Firms should, however, be aware that NZICA undertakes monitoring of published financial statements and audit reports and this includes monitoring of the size and nature of non-assurance fees. Where a firm is unable to provide information on non-assurance fees NZICA will take this into account in deciding the scope of its monitoring activities in relation to the firm.

Separately from the annual survey, NZICA is required to provide a confirmation of the accuracy of the auditor register to Companies Office by the end of June each year. To enable us to give this confirmation we request firms to check their firm and individual licence holder details and notify us of any changes. This confirmation request is sent with the annual fee invoice for the fees that NZICA collects on behalf of the FMA and Companies Office.

As an accredited body NZICA is required to monitor compliance with the conditions that apply to licensed auditors and registered firms. Firms are strongly recommended to implement their own monitoring procedure to ensure they maintain compliance with the conditions applicable to the firm and their individual licensed auditors.

Breaches of conditions

Any failure to comply with the applicable conditions, including a failure to provide required information on a timely basis, represents a breach of the relevant condition and will be noted against the licensed auditor's / firm's record. The majority of breaches are considered minor, for example an inadvertent delay in providing information, and do not generally require any further action.

In the rare cases where a breach is considered material and/or persistent, NZICA may take action under its Rules and/or as an accredited body under the ARA. Breaches considered material and/or persistent are reported to the firm and to the FMA. NZICA may undertake a practice review under Rule 12 of the Rules to investigate the breach where this is considered appropriate or when requested by the FMA.