



Grant Thornton

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Dear Richard

Proposed Approved Auditor status

Grant Thornton New Zealand Limited (Grant Thornton) is pleased to provide the New Zealand Institute of Chartered Accountants (NZICA) with comments on the Consultation Document (CD) that was issued in August 2012 titled *Proposed Approved Auditor Status*.

Grant Thornton's response reflects our position as auditors and business advisers to listed companies, privately held businesses, not for profit entities and the public sector entities in New Zealand. This submission also reflects the output of many discussions that we have had internally, as well as with other audit firms around the country and also with some of our clients.

Opening remarks

We support NZICA's opening premise that there are good reasons for some broad specialist regulation of auditors not currently reflected in the Auditor Regulation Act 2011 (the Act). As noted in the CD, auditing is a highly skilled and specialist profession. In our view it would be tragic if the selection of an audit firm depended on whether or not they were licensed with the FMA as a result of operating requirements set forth in the Act. Simply put, New Zealand is too small to have an A and B list of auditors. Thus we concur with NZICA's asserting that the recognised Approve Auditor status should assist in countering a perception of a lack of quality in auditors who are not registered under the Act

Rather than assuming that the Approved Auditor status would last indefinitely, subject to compliance with practice reviews, NZICA's Rules and continuing professional development (CPD) requirements, we think the status should be reviewed and reissued after each practice review. This is a subtle change but in our view removes what could be perceived as a sense of entitlement to undertake audits.

Practice Reviews

We agree with the CD observation that auditing is becoming increasingly complex, and therefore individuals undertaking this work should be required to demonstrate additional experience, competence and expertise before undertaking general purpose financial statement (ie statutory) audits.

However, we are concerned at the proposed frequency of the standard cyclical practice reviews. We think up to five years is too long and we would prefer to see the period reduced from five years down to three.

While a five year period may work for a large international audit firm, we think for a number of New Zealand audit firms with “very loose” international network relationships, this is far too long. On this particular matter we think that no distinction should be made – hence our recommendation to go with three years for all firms.

In the “re-review” category we think the cycle should be annual until there has been an independently assessed observation of improvement.

We also support that proposal that all new Certificate of Public Practice holders should have their work reviewed within 12 months of receiving their certificate.

Audit experience

We believe the current proposal of having 600 hours of audit experience over a three year period is far too low. This roughly translates to spending half a day a week on auditing matters. Would other professions (eg doctors, engineers, lawyers) be able to claim they promote quality, expertise and integrity with such a low level of involvement? We think not.

We therefore think the minimum level of hours should be 1,500 hours over a three year period.

The reason for significantly increasing the number of hours is that the art of risk assessment embodied in today’s International Standards on Auditing, coupled with this country’s multi-standard financial reporting framework that has now been approved by the Minister of Commerce on the recommendation of the External Reporting Board (XRB) is not easily mastered. To remain current and competent in applying auditing and financial reporting (as both disciplines need to be mastered) is absolutely essential and while we can contemplate a half time role as an auditor (ie approx. 500 hours per year minimum) we would do not support a lower level of involvement.

CPD training

We believe the training requirements required for licensed auditors issued by the Financial Markets Authority should also apply to every Approve Auditor in the country.

Our view is that audits cannot be tiered. If you are audited, you are audited to a single standard, irrespectively of your size, legal configuration or ownership. Therefore we think the CPD requirements for Approved Auditors should remain the same as in sections 7(1) and 7(2) of the Auditor Regulation Act (Prescribed Minimum Standards and Condition for Licensed Auditors and Registered Audit Firms) Notice 2012 which are:



- Auditors must complete at least 120 hours of training and education in every rolling three year period, with such training or education to include at least 20 hours completed in every year (together with the required training), and
- At least 50% of the required training must be structured training, and
- Of the structured training at least 30% must relate to auditing and at least 30% must relate to financial reporting, and
- All the required training must be relevant to the auditor's professional activities, and
- The required training must not include research or training which is required as part of conducting any particular audit or assurance engagement.

Fit and proper person

We think it is important to include this as a requirement for being an Approved Auditor and we concur with the 7 bullet points in the CD that indicate that an individual may fail the "fit and proper test".

We notice that all the matters listed relate to breaches found in business. We would like to suggest that individuals who have been prosecuted for tax evasion, or breaching this country's confidentiality laws should also be questioned as to their suitability to be an Approved Auditor.

Insurance arrangements

We think it is important that an applicant not only certify in their application that they, or their firm, have indemnity in place that meets NZICA's rules, they should also be required to immediately notify NZICA if this arrangement is subsequently changed in any way. We think this is particularly important given the triennial practice review cycle that we think at "satisfactory" rated audit firms should be subject to.

Transition

The registration of licensed auditors proved that in less than 2 months all those who wanted to be registered should. While NZICA will likely have to process a greater volume of applications, we think it's important that this application period to obtain Approved Auditor status is reduced to 6 months. If a current member elects not to apply, then they should resign from their audit engagements within a 12 month period as proposed in the CD.

Request for specific comments

Reasons for the proposal

1. **Do members consider that the specialist regulation of auditors more broadly than the regulation of issuer auditors would promote and enhance audit quality?**

Yes, for all the reasons outlined in the CD.



- 2. Do members consider that the specialist regulation of auditors more broadly than the regulation of issuer auditors would promote and enhance audit quality?**

Yes. This proposal does of course beg the question about whether or not NZICA should contemporaneously introduce specialist regulation for other disciplines within the profession (eg taxation and insolvency). This is something that we would like to see introduced as it signals to the all members of the community, the individuals' areas of expertise.

- 3. If not, how else should NZICA regulate auditors as a specialist profession?**

Not applicable.

Audit experience requirements

- 4. Should applicants for Approved Auditor status be required to meet a practical experience requirement?**

Yes.

- 5. If so, should the practical experience requirements be related to all types of audits or be restricted to statutory audit experience?**

Yes. If the individual is involved in doing both types of audits, then this should be taken into account.

- 6. Should it include a requirement to have a minimum number of audit hours? Should it include a time requirement? Should it include both?**

As noted above, we think it should include both so that maternity and paternity leave (which can be up to 12 months) can be taken into account.

- 7. If it includes a specified number of audit hours, what should these be? If it includes a time requirement what should this be?**

As noted above, if NZICA is truly committed to signalling that an audit undertaken by an Approved Auditor will be a quality audit, then the minimum requirement should be 1,500 hours across all types of audits over a rolling three year period.

- 8. Should the relevant experience be required to be completed at a senior level? If so, what should this be?**

Yes. Our designation of "senior level" is anyone with the firmwide designation of partner, engagement quality control partner (ie second partner), associate director, executive director or senior manager.

Practice review results

- 9. Should the latest practice review results be a relevant consideration when considering whether a person should be granted Approved Auditor status? If not, why not?**

Yes.

- 10. If so, should NZICA only grant Approved Auditor status to an applicant whose latest practice review was graded as either “satisfactory” or “re-review” and, in the case of the latter, NZICA is satisfied that the applicant has resolved all major issues identified during the review?**

Please see our comments above.. We note here that the wording “satisfactory” is a very broad one and we would like to see more precision around this assessment rating.

CPD training

- 11. Should applicants be required to undertake a designated number of CPD training hours for audit and financial accounting?**

Yes.

- 12. If so, is 15 hours of verifiable training for each over a three year period an appropriate amount?**

Please see our comments above.

Fit and proper person

- 13. Should applicants be required to attest at the time of their application that they are fit and proper to undertake statutory audits?**

Yes.

- 14. If so, are the matters set out in this document those that NZICA should consider? Should any be added? Should any be excluded?**

Please see our comments above.

Insurance arrangements

- 15. Should applicants be required to certify at the time of their application that they, or their firm, have indemnity insurance arrangements in place that meet NZICA’s Rules?**

Yes, but they should also inform NZICA of any changes made to the arrangements they last reviewed and considered.

Transition

- 16. Do you agree with the proposed approach to transition? If not, what would you consider appropriate in terms of transitional requirements?**

Please see our comments above.

Other

17. Are there any matters not addressed above, that you believe should be considered?

We would like to thank the NZICA for this opportunity to comment and would welcome the opportunity to meet with representatives from the NZICA to discuss these matters further. My contact information is below.

Yours sincerely
Grant Thornton New Zealand Limited



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