Audit Quality MONITORING REPORT

1 JULY 2019 - 30 JUNE 2020

2020 market snapshot

At 30 June 2020 there were...

- **135** domestic licensed auditors
- **18** domestic registered audit firms
- **178** NZX-listed companies
- **1,200** FMC audits

Our reviews

In 2019/20 we reviewed

1 small firm, 1 medium firm, 2 large firms

20 audit files, including...

13 listed companies

7 other FMC reporting entities

In 2018/19 we reviewed

2 small firms, 1 medium firm, 3 large firms

27 audit files, including...

9 listed companies

18 other FMC reporting entities

In 2017/18 we reviewed

1 small firm, 2 medium firms, 2 large firms

24 audit files, including...

9 listed companies

15 other FMC reporting entities

In 2016/17 we reviewed

3 small firms, 1 medium firm, 3 large firms

27 audit files, including...

12 listed companies

15 other FMC reporting entities

Small firms are firms with fewer than four licensed auditors
Medium firms are firms with multiple offices and fewer than 10 licensed auditors
Large firms are firms with more than 10 licensed auditors (including Audit New Zealand)

Contents

Purpose of this report

The Audit Oversight Regime

Under the Auditor Regulation Act 2011 (AR Act), we must carry out a quality review of the systems, policies and procedures of registered audit firms and licensed auditors at least once every four years.

We are required to prepare a report each year on the reviews we completed in the preceding financial year.

Our reviews help improve audit quality and ensure audit opinions are reliable. The reviews also help us to achieve our strategic goal of ensuring investors are able to make active choices based on clear, concise and effective information.

Where we note significant misconduct we refer these matters to the appropriate disciplinary bodies.

This report summarises our findings from the quality reviews we carried out between 1 July 2019 and 30 June 2020

It is for:

- accredited bodies
- auditors
- chartered accountants
- company directors
- investors
- FMC reporting entities

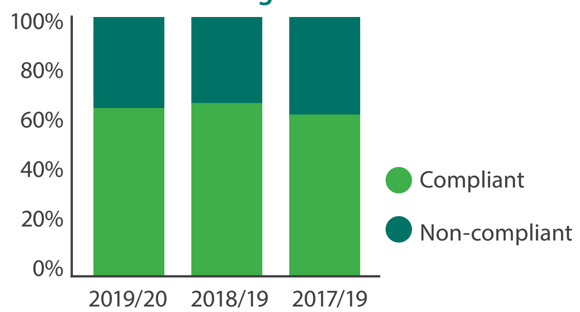
This year's report highlights key areas our stakeholders need to be aware of, along with expectations for directors and auditors of financial statements. We have also updated our guidelines for how directors can contribute to improving audit quality.

Audit quality in 2019/20

What we have seen

The number of findings per audit file has reduced over the years, which is an indication that audit quality is improving. However, we have not seen a decrease in the number of files that we rate as 'non-compliant' – over the past several years this has remained at around 35% of the total sample reviewed. Audit files selected on a risk basis have a higher chance of being non-compliant than files selected at random, providing comfort that we are targeting the right areas for improvement. While our sample of audit files is not statistically representative, our findings do provide a clear picture of the overall trends.

Audit file review ratings



A more detailed analysis of our reviewed audit files can be found on pages 6-7.

Focus areas

This year we have highlighted the following key areas that auditors and directors should focus on to improve audit quality.

- Audit firms' quality control systems
- Auditor independence
- Adequacy of financial statement presentation and disclosure

We have also highlighted the following areas raised in last year's report that continue to require attention:

- Related party transactions
- Accounting estimates
- Auditors response to fraud risk

This year's report also includes an overview of the audit findings in the peer-to-peer lending sector. In these audits, we want to see auditors focusing more on the underlying loans that generate income for the peer-to-peer service provider.

Quality review follow-ups

When we rate an audit file as 'non-compliant' we can take a number of actions, depending on the nature of the findings and the timing of our review. In some cases we will also engage with the entity to obtain sufficient information to assess whether the financial statements were compliant with the accounting standards.

Outcomes and actions from non-compliant audit files	Number of files 2019/20	Number of files 2018/19
Material misstatement identified[1]	1	2
Follow up with entity – no impact on the financial statements	0	1
Insufficient audit evidence obtained by the auditor	4	2
Investigation/referral in relation to audit conduct	0	0
FMA required additional audit work by the auditor	2	4

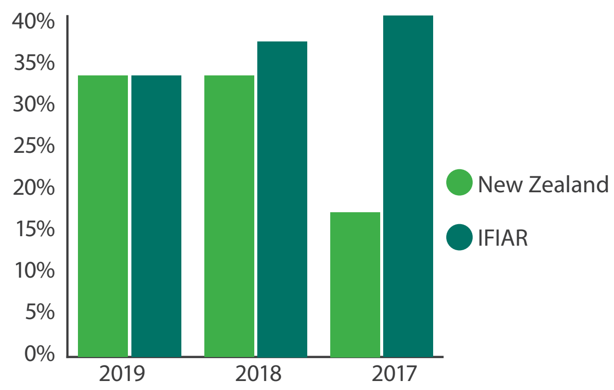
Where we rate an audit as non-compliant, it does not necessarily mean the financial statements do not show a true and fair view, or require restatement. Equally, where we rate an audit as good or compliant this is not an endorsement that the financial statements are free from misstatement.

1: In these instances we engaged with the entities to either to restate the financial statement or ensure the error is corrected in subsequent periods.

International comparison

Every year the International Forum of Independent Audit Regulators (IFIAR) compiles the inspection findings of various audit regulators, including the FMA, for the six largest audit firms[2] for the audits of listed entities. The survey findings provide an overview of key trends, the findings of audit quality reviews and the overall percentage of non-compliant audit files. The graph below compares our 'non-compliant' file ratings with those in the IFIAR report[3].

Percentage of non-compliant audit files of listed entities performed by the six largest audit firms



The 2020 level of non-compliant audits from our reviews was 30%; the 2020 IFIAR number was not available at the time this report was published.

COVID-19

COVID-19 caused significant disruption in financial markets in 2019/20. FMC reporting entities and audit firms were impacted by the lockdowns and other restrictions in both New Zealand and other jurisdictions they operate in. In some instances, this resulted in a delay in preparing and auditing financial statements. The FMA allowed affected FMC reporting entities an extra two months to file their audited financial statements.

Our 2019/2020 audit quality review cycle was substantially complete by March 2020, with only one planned review cancelled due to the lockdown. COVID-19 did not have an impact on the complexity of audit files reviewed, as the files we looked at were from the period March 2018 to September 2019.

Disciplinary procedures

This year the accredited bodies concluded on two investigations into compliance with the auditor independence requirements and auditing standards. The accredited bodies identified significant breaches in the procedures performed by these auditors, but decided not to refer either of the matters to their disciplinary body for further investigation. See page 25 for more information about the FMA's role in disciplinary procedures.

International developments in audit and audit quality

The audit profession continues to be under scrutiny in a number of jurisdictions, with inquiries ongoing in the United Kingdom, European Union and Australia. There have been some changes, such as the operational separation of audit practices by 2024 in the UK.

The FMA monitors these developments through our membership with IFIAR. We have joined IFIAR's Internationally Relevant Developments in the Audit Market Task Force, to be directly involved in key changes and developments. We continue to share relevant information with our key stakeholders and policy makers.

2: BDO, Deloitte, EY, Grant Thornton, KPMG and PwC

3: We apply the same file rating standards as IFIAR in our audit quality reviews.

Analysis of files reviewed

This section provides additional information about how we select audit files for review, and provides background on the particular areas of non-compliance and how widespread these issues are across the files reviewed.

Risk-based selection

The audit files we review are selected either based on perceived risk, or at random.

- Risk-based selections include the businesses and industries that are more vulnerable to risks from existing and emerging market conditions, such as businesses that are newly listed or experienced significant growth, or other higher-risk businesses, for example listed entities, finance companies, or businesses that have non-compliance issues such as qualified audit reports.
- Non-risk based selections include audit files selected to cover auditors previously not reviewed, or to provide sufficient coverage of the audit firm's work.

Our selection of audit files tends to be primarily focused on risk. The audit firms and audit files we review change each year, so it is difficult to compare year-on-year results. Trends in audit quality should be analysed over a number of years to better understand what progress has been made. Due to the sample sizes and the selection approach, the result may not be indicative of the overall quality of audit firms reviewed.

Audit files selected on a risk basis have a significantly higher chance of being non-compliant than those selected at random. This provides comfort that we are targeting the areas that require improvement. The tables below show the split between our risk-based and random sampling and the number of files we have rated non-compliant.

Areas covered in each audit file review

	2019/20	2018/19	2017/18
All files			
Risk based selection	10	17	14
Non-risk based selection	10	10	10
Non-compliant files			
Risk based selection	6	8	5
Non-risk based selection	1	1	4

When we review audit files, we assess whether the auditor complied with Auditing and Assurance Standards, including Professional Ethical Standards and otherwise exercised reasonable care, diligence and skill in carrying out the audit.

Our reviews focus on key areas rather than the entire audit file. The areas we look at are either fundamental to overall audit integrity (such as auditor independence and sufficient oversight by the engagement leader and EQCR) or are selected based on the potential risks they pose – for example, they may be significant to the entity's financial statements, include complex issues for the auditor, and/or involve complex judgements.

The table opposite shows how many times we reviewed these key areas across the 20 audit files reviewed, and how frequently we noted issues. In total, we noted that seven audit files were non-compliant. Across these seven audit files there were 15 areas where the auditor did not obtain sufficient audit evidence or did not detect a material misstatement.

Areas reviewed	Number of times these audit areas were reviewed	Auditor did not obtain sufficient audit evidence	Other non-compliance with auditing standards
Accounting estimates	18	4	5
Adequacy of financial statements presentation and disclosure	20	3	5
Audit report	20	0	2
Audit sampling	20	0	4
Communication to those charged with governance	20	0	4
Completion procedures	20	0	3
Engagement quality control review (EQCR)	20	0	4
Fraud risk	20	0	8
Going concern	20	2	0
Independence	20	0	2
Internal control testing	11	1	3
Inventory procedures	8	2	2
Related party transactions	20	0	9
Revenue recognition	20	1	9
Risk assessment	20	1	8
Substantive analytical procedures	20	1	7
Use of experts/specialists	16	0	8
Group audits	4	0	0

Impact of COVID-19 on financial reporting and auditing

The COVID-19 pandemic had a significant impact on preparers of financial statements and auditors. Entities have been affected by restrictions such as social distancing and lockdowns, with some facing a complete shutdown for an extended period of time.

Entities are facing high levels of uncertainty about their immediate prospects and the longer-term impact of COVID-19 on their businesses. The effects are difficult to predict and it is therefore important that users of financial statements understand both the financial impact to-date and the company's future outlook.

To ensure that users of financial statements are provided with the appropriate information, financial statements will include additional disclosures to explain the impact of the pandemic.

The increased levels of disclosure and uncertainty included in these financial statements also impacts the work audit firms need to perform to assess whether the information is reasonable and sufficient for users. In some instances, auditors may have scope limitations or be unable to obtain sufficient evidence to assess certain judgements made by management that will impact the audit opinion.

FMA's response

At the end of March, the FMA engaged with various parties to assess the impact of COVID-19 on financial reporting and auditing. This resulted in the Financial Reporting and Other Relief—COVID-19 Exemption Notice 2020, which gave FMC reporting entities and audit firms additional time to audit and file compliant financial statements.

The lockdown also affected our work overseeing audit firms. We postponed an audit quality review scheduled for May 2020 to the next reporting period. We also significantly increased our engagement with audit firms to understand the challenges and emerging risks they were facing. This approach enabled us to provide support as needed. We also increased our engagement with the Australian Security Investment Committee (ASIC) and the New Zealand audit standards-setter the External Reporting Board (XRB), to share information and where possible ensure a consistent response.

Future focus

Our audit quality reviews will continue to assess the quality of information provided to auditors by FMC reporting entities and how the auditors performed the key areas of the audit. COVID-19 may influence our key areas of focus and the files we select for review.

Areas that are likely to receive additional attention include:

- The entity's ability to continue as a going concern. Depending on the level of uncertainty impacting the going concern assumption, entities may need to consider a range of scenarios in a number of key assumptions which make these areas more complex.
- Valuations of non-financial assets prepared by management and third parties. These may contain additional levels of judgements and uncertainty because of COVID-19.
- Whether the information disclosed in the financial statements is complete and accurate.

We expect additional disclosures will be needed in the annual reports and financial statements describing the possible impact of the pandemic.

- The level of evidence obtained by the auditor, including third party evidence, especially where this may have been impacted by travel restrictions.

More information on our key focus areas and how we conduct our reviews can be found in our Auditor Regulation and Oversight Plan 2020-2023.

Our expectations for auditors

We expect auditors to have timely communications with directors in any instances where the audit team has difficulties getting the required information, or the information is of poor quality.

Auditors should include any weaknesses identified in the entity's governance, systems and processes, whether or not these are a result of COVID-19, in the audit committee report. Where significant weaknesses are identified, the auditor should assess the impact of these failures as part of its audit opinion.

We also expect audit firms to share guidance provided by the FMA on improving the quality of the financial statements and the directors' role in audit quality.

If not initiated by the board, auditors should ask to talk to directors separately from management to discuss whether or not any issues with management arose during the audit. If auditors have concerns about any poor conduct by directors, they may wish to contact the FMA directly.

Although the current circumstances make it more difficult to complete an audit, we stress that the pandemic should not compromise the overall quality of the audit. The audit process may take additional time to ensure all evidence is obtained and audit procedures are completed. We expect auditors to ensure all evidence is obtained before issuing their audit report. Where this is not possible, or if it is unlikely that issues identified in the audit can be quickly resolved, the auditors should assess the impact of the lack of evidence on their audit report. In certain instances this will result in a modified audit report.

Our expectations for directors

Directors should familiarise themselves with the FMA's guidance on audits and financial reporting, including Audit quality: A director's guide, and Financial reporting – review findings and guidance for entities in light of COVID-19.

We expect directors to lead the relationship with their auditor and proactively engage in conversation with the auditors to produce effective and high-quality information.

Focus area: Audit firms' quality control systems

Our audit quality reviews aim to provide audit firms with insight to improve their overall audit quality review systems. Following each audit quality review, we therefore ask firms to develop a plan for how they will address our findings and take measures to prevent any identified issues from reoccurring. In the subsequent review of the firm, we test the effectiveness of the plan by looking for improvements in the areas where we previously identified issues.

In the last two years, we focused on improvements in the following key areas:

- auditor independence
- related parties and related party transactions
- identifying and responding to the risk of fraud and management override
- significant accounting estimates and judgements.

Progress varies by firm, but we did see that all firms continue to make significant investments in audit quality and are committed to delivering quality outcomes on a consistent basis. Our reviews also found a number of individual audits that still failed to meet the requirements of auditing standards. This highlights the need for ongoing assessment of audit quality systems and processes in the audit firms, to increase consistency.

How we monitor progress

As part of our reviews, we perform a number of procedures to check improvements made since our previous reviews. The procedures include:

- Review of the remediation plan required to be presented to the FMA by the audit firm within three months of receiving our audit quality review report. Where required make further recommendations to ensure that all findings identified by us are addressed.
- Assessing the firm's root cause analysis for the most significant findings. We may make recommendations to ensure that the audit firm takes the appropriate steps following its identification of the root causes.
- Review of the effectiveness of the remediation plan in the next review of the firm. We review supporting documentation on how the firm has monitored the effectiveness of the remediation plan and the steps taken to address our findings.

What we have seen

Audit firms have taken a number of improvement initiatives, including the following:

- Improving internal audit quality monitoring processes, which often involves international reviewers from their network. Some firms also have an internal team that reviews a sample of audits on a real-time basis before the audit opinion is issued. This approach helps to identify potential issues or areas for improvement, and provides an additional layer of challenge to the audit team.

- Implementing follow-up actions from our review, including making changes to audit work programmes, and providing additional guidance and training. These changes often improved the audit team's compliance in these areas.
- Firms developing a more consultative culture, and audit teams being more willing to use the firm's consultation process to improve audit quality.
- Firms preparing root cause analysis for each file inspected as part of their internal audit quality monitoring process, as well as for those reviewed by the FMA.
- Firms increasing accountability for individual auditors by creating more robust processes to sanction poor audit quality results, and/or options to reward good results.

We ask firms to consider a number of recommendations in relation to our findings, to further enhance their efforts to raise audit quality standards. These include the following:

- To balance robust processes to sanction poor quality, more firms should provide incentives to recognise positive contributions to audit quality.
- Firms can further enhance their root cause analysis to identify the factors that contributed to good and poor quality outcomes. We often see audit firms focus on finding solutions to issues identified, without understanding why the issue arose in the first place.
- While firms have invested in techniques such as audit quality indicators and root cause analysis, improvements can be made in monitoring the effectiveness of actions taken as a result of these techniques.
- Ensure that processes designed to deliver better quality outcomes, such as consultation and engagement quality reviews, are well executed.
- Firms should perform follow up reviews to ensure individual findings on audit files have been addressed by the audit teams.

We also continue to see that senior team members are not sufficiently reviewing the work of junior or inexperienced team members in key areas of the audit. This means failures in basic audit procedures are not detected, which undermines initiatives to raise audit quality.

Our expectations for auditors

Audit firms should continue to review and enhance their internal audit quality review processes and monitor the effectiveness of the improvements made. Root cause analysis performed by the firms should be more focused on understanding the events that lead to poor outcomes, and should identify how teams have been successful in obtaining good outcomes.

Firms should develop an audit quality approach that focuses on creating a positive culture and working environment through coaching and rewarding positive outcomes. We will focus on ensuring that firms continue to improve and develop their root cause analysis processes and implement change on a timely basis.

Our expectations for directors

Audit committees can play an important role in facilitating a high-quality audit. Directors must make sure their business has appropriate policies and procedures in place for dealing with complex accounting issues or business transactions, and seek independent advice when necessary.

Directors should ensure there is a high quality of management and board papers to provide evidence supporting the financial statements. They should also make sure they have appropriate backup systems to maintain accounting records and provide the auditors with information in a timely manner.

Audit committees should appoint their auditors based on quality, and seek the following information to ensure they have sufficient insight into the firm's audit quality systems:

- Systems and policies the firm has to internally monitor audit quality, the outcomes from this monitoring and what improvement actions are being taken.
- Experience of the audit team, time spent by senior team members and level of training received.
- Details of the findings of any reviews of the entity's audit files by the FMA or another regulator.
- Details of findings of internal and external reviews more generally and how these have been mitigated by the firm.
- Feedback from the auditors on how management of the entity could further contribute to audit quality.
- Directors should implement an ongoing process to measure audit quality and to consider if the audit should be put up for tender to maintain quality. The driver for the tender should not be the level of audit fees.

Focus area: Auditor independence

Why independence is important

The role of the auditor is to provide an independent view on whether the financial statements are prepared, in all material respects, in accordance with the applicable financial reporting framework. If users of financial statements believe the auditor did not appear to be independent, it impacts confidence in the financial statements and trust in the audit firm and audit profession. A reduction in confidence has been noted in other countries where audit quality was compromised by independence breaches.

What we have seen

Our audit quality reviews include looking at audit firms' compliance with independence standards across all selected audit files. One of the key aspects we consider when evaluating independence is the provision of other non-assurance services by the auditor. Directors and auditors have taken on board our recommendation to give more thought to how other stakeholders may view such threats to independence, as we have seen an overall decrease in the level of non-assurance services provided by the audit firms.

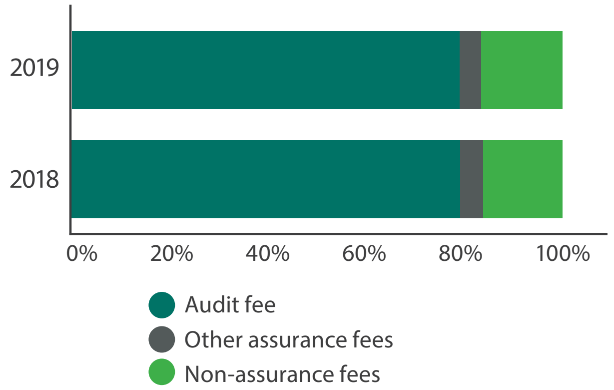
We have seen improved documentation on the audit file regarding independence. Where the auditor has identified threats to independence, these have been reported to the directors of the entity. Auditors also improved their consideration and documentation of how the total level of non-assurance services may be perceived by users of the financial statements.

Our reviews have had fewer findings in relation to auditor independence, although in one instance the auditor did not appropriately disclose a business relationship in the audit opinion. Auditors should continue to emphasise the importance of independence to all audit staff.

Non-assurance services

When assessing the level of non-assurance services provided by audit firms, we did not find any correlation between the level of non-assurance services provided and the quality of the audit. As shown in the graph below, the level of non-assurance services compared to audit services is relatively low[4], and the proportion of fees charged by audit firms related to non-assurance services, remained at 16%.

Fees for services provided to listed entities by their auditor



Audit fee

The audit fee includes the fees charged for the audit of the financial statements and half-year audits or reviews.

Other assurance fees

These services provide assurance to the entity in areas other than the financial statement audit. These services don't impact the independence of the auditor. There are certain services, such

4: Based on 126 listed entities reviewed in our report Enhanced auditor reporting as assurance related to compliance with Reserve Bank or Electricity Authority requirements, and AML/CFT audits, which we expect the auditor to perform.

Non-assurance fees

Non-assurance services have a higher independence risk as they may create self-review, self-interest or advocacy threats. Audit firms should appropriately address these threats. The level of non-assurance services is not the only benchmark for independence concerns – the nature of the services and the closeness of the relationship between the audit firm and the entity and its personnel also play a role in the assessment of independence.

Use of new technology and risk to auditor independence

In the last five years, audit firms have significantly invested in new technology such as data analytic tools, machine learning and predictive analysis. Audit firms are of the view these tools can positively contribute to and improve audit quality.

The use of these tools may enable audit teams to obtain a deeper understanding of an entity's systems and processes, making the audit more effective. Audit firms are promoting their digital transformation to clients, highlighting how the insights from the use of technology will also help management make better decisions and provide boards with insights so they can ask the right questions.

These new tools are not limited to audit teams, but can also be offered as a separate service to a wider range of clients. We see an emerging risk if audit firms offer these tools to the entities they audit, or to entities that may become audit clients in the future. A conflict may arise if the entity or the audit firm use these tools to analyse data that may later become subject to audit.

Professional and Ethical Standards (PES1) paragraph R606.5 prohibits firms from providing IT systems services to audit clients that are public interest entities if the services involve designing or implementing a system that forms a significant part of the internal control over financial reporting or generate information that is significant to the client's accounting records or financial statements.

Auditors should consider if these services would lead to a self-review threat or otherwise affect independence in appearance[5].

Our expectations for auditors

Auditors should approach independence with the highest integrity and, when in doubt, take a conservative approach. We expect auditors to continue their focus on providing sufficient information to directors about threats to independence and how the audit firm has mitigated them. The disclosure of non-assurance services in the financial statements and audit opinion require additional scrutiny. Independence in appearance is critical to confidence in the audit profession.

While there are certain provisions in Professional and Ethical Standards for the use of technology, the circumstances in which they apply may not always be clear. We expect auditors to give more

5: Independence in appearance can be described as the absence of any facts and circumstances that would cause a reasonable and informed third party to conclude that the integrity, objectivity or professional scepticism of an audit firm's or member of an audit, review or assurance team has been compromised.

consideration to any new services offered to audit clients and how this may be perceived by users of the financial statements. These considerations should be clearly documented on the audit file and communicated to the entity's directors.

Directors' role in auditor independence

Directors play a key role in maintaining the independence of the auditor. Directors should think carefully before asking their audit firm to provide services other than the annual financial statement audit, and should keep in mind how provision of non-audit services could be perceived by the public. Directors should ensure that all pre-approved services are disclosed clearly in the financial statements. Disclosure in its annual report should include how the directors ensured that threats to independence from these services have been appropriately addressed by the audit firms and how the audit committee monitored this.

In relation to the increased use of technology by auditors, directors should think carefully about how the information provided by the auditors may be used by management. Management should not use the audit firm's software or data for its own risk assessment, internal controls or preparation of financial statements.

FMA focus

We will continue to review independence for each audit file and extend our research into the level of non-assurance services audit firms provide to their clients. We will also increase our engagement with FMC reporting entities about concerns of auditor non-compliance with independence requirements, and areas where directors could help improve this compliance.

Focus area: Adequacy of financial statements presentation and disclosure

Why it is important

Audited financial statements are a key resource for investors when making investment decisions. Investor confidence in financial statements is dependent on the perceived quality of the audit. The auditing standards set out that auditors are responsible for evaluating whether the overall presentation of the financial statements by the FMC reporting entity is in accordance with the applicable accounting standards.

What we have seen

Auditors have put significant effort into obtaining and documenting audit evidence to support the numbers in the financial statements. However, we do not always see the same level of documentation and evidence when it comes to an entity's compliance with accounting and disclosure requirements.

Our reviews have highlighted the following areas for improvement:

- Financial statements containing management estimates did not always disclose all relevant key assumptions and other useful information to help users understand management's assessment of the valuation. These disclosure omissions were not always reported by the auditors to directors.
- The review of an entity's compliance with accounting standards may have been performed by a dedicated team or individual within the audit firm. From the documentation on the audit file it was often unclear:
  - if the technical team was provided with all relevant information to conclude whether the entity complied with the accounting standards. For example, the team may only have been provided with extracts of underlying documentation, which may lead to an incorrect conclusion if key information was excluded
  - how the entity addressed areas of non-compliance noticed by the technical team
  - how any non-compliance not addressed by the entity impacted the overall audit opinion.
- When adopting a new accounting standard, auditors have to assess whether prior year balances have to be restated retrospectively. In instances where the entity does not adjust prior period balances, the auditor should assess the impact of relevant balances on the financial statements.
- In one instance, the auditor had reported non-compliance with the accounting standards to the directors, but the entity did not follow the advice of the auditor. In this instance we disagreed with the auditor's conclusion that the financial statements did comply in all material respects with the financial reporting framework.

Our expectations for auditors

- We expect auditors to increase their efforts to evaluate the overall presentation, structure and content of the financial statements. Auditors should have a good understanding of the entity and its environment, and assess whether the disclosures are in line with the overall understanding of the business.
- The auditor should request the entity's accounting papers for each class of transaction,

and see if these are sufficient to verify the entity's compliance with the accounting standards. It is not the auditor's role to prepare the accounting papers that support the chosen accounting treatment.

- The auditor should challenge and confirm if management's chosen accounting treatments are compliant and provide sufficient levels of disclosure.
- The auditing standards state that financial statements do not comply with NZ IFRS if they contain either material errors or immaterial errors made intentionally to achieve a particular presentation of an entity's financial position, financial performance or cash flows[6]. We expect auditors to carefully consider errors identified in the audit on this basis. It is important that the auditor considers the investors' point of view when assessing whether the error is material, rather than just looking at the quantitative number.
- Auditors are encouraged to seek support from their technical team to review the complex areas in financial statements.
- Guidance and advice given by the auditor should be discussed and agreed with the directors. If there is disagreement with directors this should be clearly documented and the audit team should assess the impact of this disagreement on its audit opinion. ■

What directors can do

- Ensure there are policies and procedures in place to capture all relevant disclosures. We also expect management and directors to document the entity's rationale for not disclosing what they perceive to be immaterial balances.
- Consider the auditor's overview of uncorrected errors, including disclosure discrepancy. Directors should document their compelling reasons not to adjust these errors.
- Seek accounting advice for unusual or complex transactions, and ensure this covers both measurement and timing of the accounting.
- Have appropriate accounting records in place, including a paper that supports the accounting treatment adopted by the entity for each material class of transaction. This is particularly relevant in areas of judgement or disclosure of key assumptions made by management.
- For related party transactions, have appropriate monitoring systems in place to verify the completeness and accuracy of relationships and transactions.
- Consider whether disclosures are sufficiently clear, concise and effective. Directors can find more information on the FMA's expectations in our report Improving financial statements. ■

FMA focus

We continue to make efforts in our audit quality reviews and financial reporting monitoring to ensure that investors are provided with compliant financial statements. Therefore, we may contact FMC reporting entities as part of our audit quality reviews to enquire about the entity's compliance with financial reporting and disclosure matters. ■

6: NZ IAS 8 paragraph 41

Focus area: Auditing peer-to-peer lending services

Peer-to-peer lending services match people who want to enter into a loan with people who are potentially willing to fund those loans. Peer-to-peer services are a financial market participant under the FMC Act. They are therefore considered FMC reporting entities and their audits are subject to our audit oversight.

Since the introduction of the licensing regime for peer-to-peer lending services, we have reviewed a large number of peer-to-peer audits. These audits are not highly complex, but the auditor still needs to exercise an appropriate level of professional skepticism to ensure all audit procedures are performed to the appropriate standard.

Each peer-to-peer lending service provider operates its own model, completes its own credit risk assessment, and offers differing terms, repayment options, and default practices.

Financial statements of these lending services may not necessarily provide information and trends related to the quality of the underlying loans, as the service only records commissions received from facilitating the lending, and not the loans themselves. Due to the increasing value of outstanding loans and the number of investors, there is a risk that a downturn in performance may have a far-reaching impact on market confidence.

Additional comfort in the governance of peer-to-peer lending services can be obtained from the requirement that these services are required to provide a control assurance report[7] and a report on compliance with their net tangible asset calculations. These reports provide relevant information on the control environment implemented to support the financial information and financial headroom available to operate the business. However, these reports do not provide comfort over whether borrowers have the ability to repay their loans.

Overview of the peer-to-peer lending sector

At the end of 2019 there were seven peer-to-peer lending services operating in New Zealand, with an approximate loan exposure of NZ$547m. The latest industry snapshot data[8] is included below:

Peer-to-peer lending: sector summary

	2019	2018	% change
Licensed service providers	7	8	-13%
Total value of outstanding loans	$547m	$489m	12%
Investors registered	31,846	26,123	22%

Total value of outstanding loans for each licensed provider

	2019	2018	% change
Harmoney[9]	$392m	$318m	23%
Southern Cross	$112m	$105m	7%
Squirrel Money	$15m	$13m	7%
Zagga	$12m	$5m	164%
Lending Crowd	$10m	$8m	30%
Citizens Brokerage	$6m	$40m	-85%
PledgeMe	$0.8m	$1m	-16%
Total	**$547m**	**$489m**	**12%**

7: In accordance with regulation 10 of the Financial Advisers (Custodians of FMCA Financial Product) Regulation 2014

8: More information on peer-to-peer lenders can be found on our website.

9: Harmoney exited the peer-to-peer market in 2020

Loans in arrears or written off

	2019	2018	% change
Number of outstanding loans in arrears	1,426	949	50%
Value of outstanding loans in arrears	$39m	$26m	47%
% of outstanding loans in arrears	6.2%	4.8%	28%
Number of loans written off	845	1,197	-29%
Value of loans written off	$14m	$14m	0%

What we have seen

Auditors have used different approaches to audit peer-to-peer lending services. Some auditors cover only the key transactions in the financial statements, such as the margin incomes, fees, operating expenses and the intangible assets (for example the lending platform). Other auditors have incorporated a wider approach that includes carrying out audit procedures over the underlying loan book, such as assessing credit risk, default rates, controls around writing new loans, and performance of existing loans.

Execution can significantly vary between audits. While some auditors will take a controls-based approach, others may perform a substantive audit. Auditors incorporate the work of the control assurance report into their audit evidence, which may reduce the amount of work needed for the financial statement audit.

During our reviews, we noticed a number of good practices, including the following:

- Auditors tested the operating effectiveness of controls in relation to new loans subscribed, the default of loans and the interest income, to ensure the income generated by the manager was complete and accurate.
- Where the auditor included their control testing in the audit file or took reliance from the control assurance report, the auditor:
  - tested the underlying application controls
  - assessed if the controls operated effectively, and obtained an understanding of the scope of these controls
  - assessed the impact of limitations of the controls report on the audit.
- Auditors performing substantive procedures to test the existence and recoverability of outstanding loans, to assess the peer-to-peer service provider's income.

Areas where auditors needed to improve include the following:

- There was no clear documentation of the auditor's understanding of the control environment of the peer-to peer service provider's systems and processes around loan approval, disbursements, instalment repayments, commissions and fees charged. The auditor also did not demonstrate or evidence an understanding of the entity's processes and controls of relevant key information systems used to prepare the financial statements.
- Where testing of controls did occur, the auditor did not always appropriately consider whether the initial design of the control was effective. Where deficiencies were identified, the auditor did not assess the impact of those deficiencies and whether additional procedures were required.

- The most common findings related to testing of the existence and accuracy of member loan balances. In testing the existence of loans, the auditor often relied on documents produced by the entity, rather than information from independent sources such as the original signed loan document or proof of payment. Insufficient audit evidence was obtained regarding reliability of internally produced documents.

Our expectations for auditors

It is important that auditors document their understanding of the operating model of the peer-to-peer lending service provider, and conclude on the risks associated with this model. Areas we expect auditors to improve and focus on include:

- Documenting their understanding of the entity's control environment, including assessment of the design of loan balances.
- Performing a robust risk assessment at each financial statement assertion level. This should include mapping the appropriate controls assessment, controls testing and substantive testing.
- When relying on work performed as part of other assurance reports, we expect appropriate documentation regarding the controls tested and audit evidence obtained and where reliance is placed on the IT environment these should be appropriately tested.
- When a substantive testing approach is taken, this should include an appropriate sample of existing and new loans to ensure it represents the entire population being tested. ■

Focus area: Follow up on 2018/19 observations

In our 2019 Audit Quality Monitoring Report, we set out our observations and expectations in the following areas:

- auditor response to fraud risk
- accounting estimates
- related party transactions.

As our reviews covered different audit firms this year, we continued to focus on these areas. Following our reviews we also engaged with a number of FMC reporting entities where we saw instances of non-compliance.

Auditors and directors should keep these areas in scope when discussing audit plans for the upcoming reporting season. Below we set out our ongoing observations in each of the three areas.

Auditor response to fraud risk

Investors expect financial statements as a whole to be free from material misstatements caused by fraud or error. It is the auditors' responsibility to perform a number of audit procedures to address the risk of fraud in financial statements. These procedures should provide comfort that the objectives of the auditing standards are met. When material fraud is not identified during the audit, this can significantly affect trust in the audit profession, as noticed in some overseas jurisdictions.

What we have seen

Our reviews noted the following areas where the audit files need to improve:

- While the audit team may have considered possible management bias, incentives, pressures, and risks associated with committing fraud within the entity, the audit file lacks documentation to reflect the assessed impact of those considerations.
- When considering the test of journal entries as prescribed by the auditing standards, the auditor did not obtain a thorough understanding of the entity's journal entry processes, including how journal entries were entered into the system, how often and by whom, and the process of approval.
- When testing journal entries, auditors often documented their discussions with the entity's management to understand the rationale behind the entries. In other instances the auditor referenced the journal entries to other audit work to conclude if the journal appeared reasonable. However, the auditor did not review supporting documentation to confirm whether the specifically identified risky journal entry is genuine and supportable as required by the standard.
- Where the entity had a lack of controls to prevent fraud in the processing of journal entries, auditors did not always provide clear communication to directors about these findings. While auditors may detect the risks of fraud and discuss these with management, we do not always see how auditors have addressed the risk or considered the impact of the lack of sufficient oversight by management.

Our expectations for auditors

The good execution of audit procedures to address the risk of fraud is important to overall confidence in the audit profession. Auditors should incorporate a level of unpredictability in their procedures. Documentation of the auditor's fraud risk assessment and how this will be addressed by audit procedures should be improved.

Auditors often rely on testing journal entries as their main procedure to address the risk of fraud. For these procedures to be effective, auditors need to have an excellent understanding of the entity's systems, policies and methods to post journal entries to scope the appropriate journal entries that pose a fraud risk.■

What directors can do

- Directors should review their policies and procedures to ensure they are sufficient to prevent and detect fraud. This includes ensuring there is segregation of duties, especially in relation to the processing and approval of journal entries and access to bank accounts. Directors should perform an annual detailed risk assessment of areas of potential fraud. This should include an assessment of financial reporting fraud, the possibility of management override and areas of management and director bias.
- Discuss the entity's risk assessment with the auditors as part of the audit planning process, and ask for feedback on the effectiveness of the procedures. Assess whether management incentive schemes are appropriate and ensure they don't increase the risk of fraudulent behavior, such as management biases in key areas of the financial statements.
- Question auditors about the audit procedures performed in response to the risk of fraud, without the presence of management.■

Accounting estimates

Management estimates such as valuations and provisions in financial statements are inherently subjective and can be sensitive to small changes in key assumptions. It is important that investors have information about areas of estimates and judgement, so they can make informed investment decisions. Auditors should sufficiently challenge and verify the assumptions that form the basis of these estimates and ensure that the assumptions are clearly disclosed in the financial statements.

What we have seen

Accounting estimates are a key area of focus in all our audit file reviews. Audit files continue to lack audit evidence and documentation in the following areas:

- Consideration by the auditor of whether the financial statement disclosure is clear and concise, and includes all information investors need to assess the impact of uncertainties and changes in key assumptions.
- Instructions provided to the auditor's experts and conclusions reached by these experts.
- Challenging or testing management assumptions and inputs such as growth assumptions and budgets, and identifying the key assumptions and sensitivities in the model used by the management expert.

Our expectations for auditors

To improve the work regarding accounting estimates, the audit team should:

- Clearly document their audit evidence in response to the entity's assessment and, where contradictory evidence is available, explicitly state why the evidence does not impact the overall conclusion.

- In complex areas that are outside the expertise of the audit team, engage their own expert to assess the relevance and reasonableness of the key assumptions and methods used.
- Involve the engagement partner (and the engagement quality control reviewer) in planning and executing these procedures.
- Where insufficient information is available, assess the impact of this on the audit opinion. ■

What directors can do

- Engage early with your auditor and advisers on complex accounting matters to ensure that all information is provided to the auditor on a timely basis. When using external experts, ensure they are sufficiently independent from management, and identify areas of management bias. Meet with independent advisers and/or management on key accounting matters to obtain a good understanding of judgements made, to assess the impact of these judgements on the accounting treatment. Challenge management and experts on key assumptions that impact valuations. Where management or external experts include disclaimers in their valuation report, ensure you fully understand the effect of these disclaimers on the overall level of uncertainty of the valuation, and how this should be disclosed in the financial statements.
- Provide clear and concise disclosures in financial statements regarding the key estimates in the financial statements. This should include consideration about the key assumptions and estimates, and how changes to these estimates and assumptions impact the valuation.
- If the auditor and management had different views, understand how they resolved their differences and how the auditor supported their views with appropriate evidence. ■

Related party transactions

Adequate disclosure of related party transactions is critical for investors to understand relationships the entity has and the impact these relationships and transactions have on the business. Although related party transactions may occur in the course of normal business, because the entities are not entirely independent of each other, the transactions may carry a higher risk of material misstatement. Due to the importance of these transactions, financial statements are required to include:

- an overview of related parties
- any transactions with these related parties
- the nature of the relationships
- the value of transactions and balances.

What we have seen

Our reviews noted that audit files lacked sufficient documentation on how auditors assessed the entity's policies and processes for identifying related parties and related party transactions. We did not see details of how an entity's lack of processes affected the work of the auditor and how the auditor confirmed that all related parties and transactions had been identified and disclosed in the financial statements.

Our expectations for auditors

Audit firms should improve their assessments of entities' procedures and policies to identify related parties and related party transactions, and the potential risk related party transactions have on the financial statements. The outcomes of this assessment should be clearly reflected in the audit file. The auditor should scope its audit procedures appropriately to address the risk identified. ■

What directors can do

- The entity should have a clear policy regarding related party transactions. This should be regularly reviewed and confirmed by all directors and key management personnel. Management should have independent procedures to review the accuracy and completeness of related parties and related party transactions. The board of directors should have a robust procedure to regularly monitor the entity's processes and controls around related party transactions, including a review of all related parties and related party transactions, and assessment of the disclosures required in the financial statements.
- Board meetings should include an agenda item to remind directors to review and affirm appropriate disclosure of all relationships and transactions.
- Directors should trust the auditor's policies and processes for keeping information confidential, even with sensitive matters such as related party transactions and key management personnel remuneration. Entities must not request this information be treated differently than any other audit evidence.
- The disclosure of related parties and related party transactions in the financial statements should be reviewed in detail by boards to ensure everything is appropriately disclosed. ■

Disciplinary procedures

One of the functions of accredited bodies, as set out in the AR Act, is to take appropriate action against misconduct by licensed auditors. The FMA's role is to monitor accredited bodies in their performance of their frontline regulatory functions, including reviewing whether they have appropriate systems, policies and procedures to take action against misconduct.

Accredited bodies have the primary responsibility for investigating auditor conduct. We are only able to investigate matters that accredited bodies decide not to investigate or have referred to us.

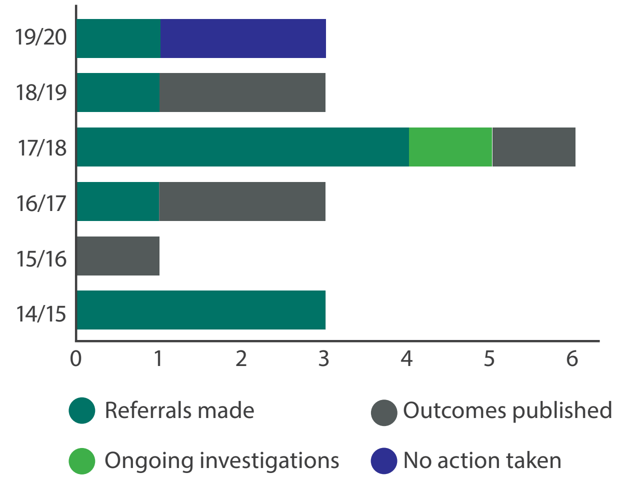
If we identify issues during an audit quality review, we may ask the relevant accredited body to assess whether the auditor has breached the Auditing and Assurance Standards. These referrals are made if we believe the breaches had a significant impact on audit outcome, or where Professional and Ethical Standards have been breached. We may also refer other matters to accredited bodies that come to our attention through complaints or other intelligence. It is the role of the accredited body through their disciplinary process to conclude if standards have been breached.

Our monitoring reports of accredited bodies can be found on our website[10].

The following graph provides an overview of how many matters we have referred or been involved in with accredited bodies. This includes any instances until the date of issuing this report.

As at the date of the report there are three ongoing investigations for referrals made by us between 2017 and 2019. These cases may involve a number of licensed auditors. Areas of concern in these investigations include:

Number of matters referred to accredited bodies



- auditing of estimates and judgements
- reasonable care, diligence and skill applied by the auditor.

In 2019/2020 the accredited bodies completed two investigations initiated by the FMA.

In the first case, the accredited body determined that the auditor had breached the independence requirements and made a misleading report to the entity's Audit Risk and Compliance Committee. It further determined the audit firm did not take appropriate and timely action to remediate the breach on first becoming aware of it.

In the second case, the accredited body found the audit work performed regarding related party relationships and transactions was not carried out fully in accordance with auditing and assurance standards. The auditor had previously been notified of non-compliance in this area on the same audit engagement.

The accredited body decided not to refer either of these matters to their disciplinary body for further investigation.

10: CA ANZ reports; CPA Australia reports

Appendix 1 – Audit oversight regime

Oversight of FMC auditors

The Ministry of Business, Innovation and Employment (MBIE) sets the policies for the oversight of auditors of FMC reporting entities. The regulations are set out in two key pieces of legislation:

- the Financial Market Conduct Act 2013 (FMC Act), which establishes which entities require their financial statements to be audited by a licensed auditor/registered audit firm
- the Auditor Regulation Act 2011 (AR Act), which sets out the rules regarding the licensing and oversight of auditors of FMC reporting entities.

What are FMC reporting entities?

The FMC Act defines an FMC reporting entity as:

- an issuer of a regulated financial product (for example managed investment schemes and other registered schemes)
- listed entities
- registered banks and licensed insurers
- credit unions and building societies
- a number of other licensed entities under the FMC Act.

Financial Markets Authority

The FMA is the Crown entity responsible for enforcing securities, financial reporting and company laws as they apply to financial services and financial markets. This includes the regulation of auditors of FMC reporting entities, and the accreditation and monitoring of professional bodies. The FMA also licenses and registers overseas auditors and audit firms.

External Reporting Board

The External Reporting Board (XRB) is an independent Crown entity responsible for standards related to auditing in New Zealand. In relation to FMC reporting entities, the XRB has issued the following standards:

- Accounting Standards, which each FMC reporting entity must comply with
- Auditing and Assurance Standards, which all auditors must comply with when auditing FMC audits.

Both standards are based on international standards, being International Financial Reporting Standards (IFRS) and International Auditing Standards (IAS).

Professional bodies

Two professional bodies in New Zealand are accredited by the FMA: Chartered Accountants Australia and New Zealand and CPA Australia. To be accredited, these bodies are required to have adequate and effective systems, policies and procedures in place to perform the following functions:

- licensing domestic auditors and registering domestic audit firms using the standards set by the FMA
- monitoring those auditors and registered audit firms
- promoting and monitoring the competence of these members
- taking action against misconduct.

All licensed auditors can be found on the Auditors Register.

Monitoring audit quality

At the beginning of each year, the FMA issues an Auditor and Regulation Oversight Plan. This plan helps licensed auditors, registered audit firms and accredited bodies to understand how we will approach auditor regulation and which areas we will focus on during our reviews.

We report annually on our findings by issuing the following reports:

- Audit Quality Monitoring Report (this report)
- Audit Quality: A director's guide.

Quality review methodology

We assess an audit firm's compliance with the standards and the requirements of the AR Act by:

- looking at the firm's overall quality control systems for performing compliant FMC audits
- reviewing a selection of individual FMC audit engagement files to see if a file complies with the above systems and the Auditing and Assurance Standards issued by the XRB.

We review the 'Big Four' firms every two years, and all other firms every three years. As a result of our Memorandum of Understanding (MOU) with the Auditor-General, we may review audits of FMC reporting entities carried out by private audit firms on behalf of the Auditor-General. The results of these reviews are included in this report and our findings are communicated directly to the Auditor-General.

All of our reviews undergo a robust moderation process. Each audit quality review assessment report is peer-reviewed by a reviewer not involved in the initial review. Our final report goes to the Auditor Oversight Committee (AOC) for consideration. The AOC provides an independent forum to review the consistency and fairness of all quality review reports. The AOC comprises a diverse group of professionals including former auditors, company directors, and others with relevant experience who are independent of the audit profession.

Quality control framework

The requirements of a quality control system is set out in the Professional and Ethical Standards, and Auditing Standards. Our assessment of an audit firm's quality control system focuses on whether:

- the system complies with the relevant standards
- the system's policies and procedures are followed
- the system contributes to high-quality FMC audits.

We also evaluate whether the firm's internal monitoring of its audit quality control system is effective. This internal monitoring includes the firm performing an engagement quality control review (EQCR) on each audit file. The EQCR process is designed to provide an objective evaluation of the significant judgements the audit team has made and the conclusions reached in the auditor's report.

We have prescribed additional requirements[11] for the EQCR given its importance to the audit process. We expect the EQCR partner to be suitably qualified and have relevant experience to enable them to give an objective evaluation and therefore the FMA required the EQCR to be licensed.

Individual file reviews

We carry out individual audit file reviews to check the auditor has complied with Auditing and Assurance Standards, and exercised reasonable care, diligence and skill in carrying out the audit.

Key attributes of audit quality are:

11: Paragraph 8(1)(f) of the Auditor Regulation Act (Prescribed Minimum Standards and Conditions for Licensed Auditors and Registered Audit Firms) Notice 2012

- an independent audit is carried out by a licensed auditor
- the auditor demonstrates appropriate levels of professional scepticism
- adequate and appropriate audit evidence is obtained
- the auditing and assurance standards are followed
- an appropriate audit opinion is issued.

File selection and ratings for individual audit files

The number of audit files we select for each audit firm is determined by the number of licensed auditors at the firm, the number of FMC audits completed and the results of the firm's previous review.

In selecting specific files for review, we take into account:

- businesses of significant public interest given the value of financial products issued to the public (such as KiwiSaver schemes, banks, insurance companies and businesses listed on the NZX)
- businesses and industries that are more vulnerable to risks from existing and emerging market conditions, such as newly listed businesses, or businesses that experienced significant growth
- other businesses considered higher risk, such as finance companies, or businesses that have non-compliance issues such as qualified audit reports, or have not complied with laws and regulations
- a cross-section of different licensed auditors in each registered firm.

If a previous review found an audit file did not meet the required standards, it is likely we would review that auditor or audit file again.

File ratings

When we complete a file review, the reviewer gives each individual finding on that file a rating from low to high, and proposes a final overall file rating from the categories below:

Good

We either had no findings or the findings relate to improving some documentation or minor non-compliance with the auditing standards. The reviewer is satisfied that all audit procedures have been performed around key risk areas and sufficient audit evidence was obtained.

Compliant, but improvements needed

We identified a number of areas in the file where the audit wasn't performed in accordance with the audit standards. However, the reviewer found that overall there was sufficient and appropriate audit evidence obtained in the key risk areas.

Non-compliant

The file showed several areas where the audit wasn't performed in accordance with the standards. The reviewer found insufficient or inappropriate audit evidence obtained in at least one key risk area of the audit, or the review showed a material misstatement that required restatement of the financial statements and/or the audit opinion.

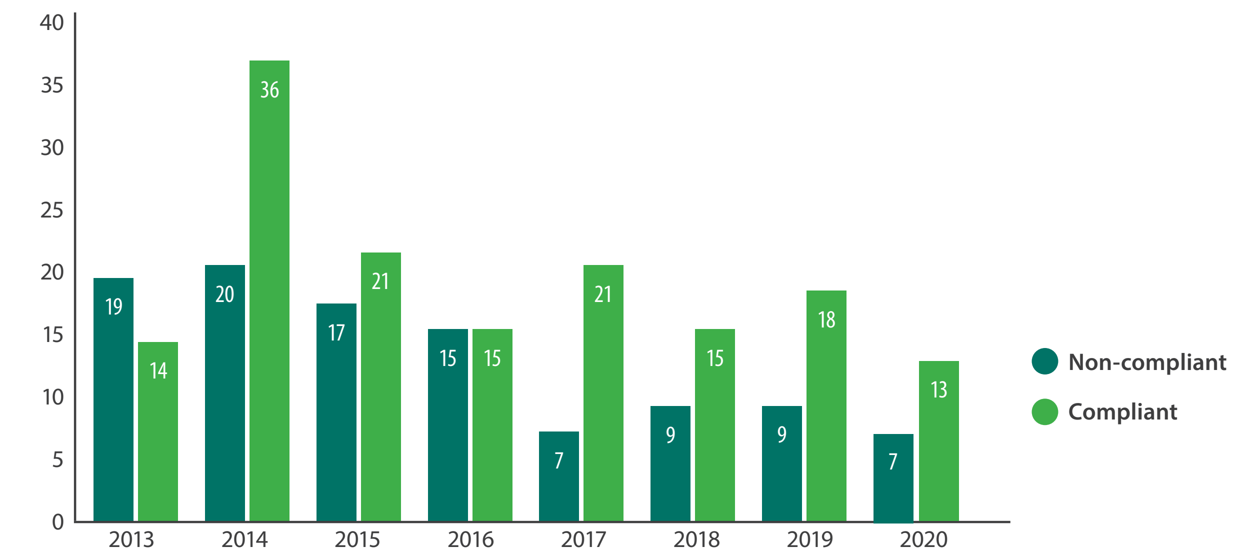
The ratings are reviewed by the AOC.

Summary of review ratings

The graph opposite provides an overview of how we rated the individual audit files reviewed over the last eight years.

This is broken down further between listed and other businesses as follows:

Audit file review ratings 2013-2020



Listed businesses

Year	Compliant		Non-compliant
	Good	Improvements needed	
2020	5	3	5
2019	1	5	3
2018	3	3	3
2017	2	8	2
2016	-	6	7
2015	5	6	2
2014	1	9	4
2013	2	2	3

Other FMC reporting businesses

Year	Compliant		Non-compliant
	Good	Improvements needed	
2020	2	3	2
2019	6	6	6
2018	1	8	6
2017	4	6	5
2016	-	9	8
2015	2	8	15
2014	2	24	16
2013	3	7	16

Background to our rating criteria

Our reviews focus on audit processes and procedures, and do not assess whether the underlying audited information is correct. Where we rate an audit as non-compliant, it does not necessarily mean that the financial statements do not show a true and fair view, or require restatement. Equally, where we rate an audit as good or compliant this is not an endorsement that the financial statements are free from misstatement.

Our reviews cover different audit firms each year and files are selected on a risk basis. The sample is therefore not statistically representative, and the summary of results needs to be interpreted cautiously. Our findings do, however, provide insights in trends into audit quality and highlight areas for improvements applicable for the majority of FMC audits.

Possible post-review actions

Following an audit quality review we consider if further action is required. Actions we could take include:

- Requiring an audit firm to perform additional work to address our findings.
- Requiring an entity to restate the financial statements, if we find material misstatements.
- Completing a follow-up review within 12 to 18 months of the previous review to ensure the firm has taken appropriate action to address our findings.
- Issuing directions to remediate any findings.
- Referring complaints to the professional body to be dealt with under its disciplinary procedures.

Appendix 2 – Market data

	30 June 2020	30 June 2019	30 June 2018	30 June 2017
Domestic licensed auditors	135	132	138	141
New licences issued to domestic auditors	10	11	5	7
Domestic auditor licences cancelled	7	8	8	12
Domestic registered firms[12]	18	18	19	21
Domestic audit firms licenced	1			
Domestic audit firms registrations cancelled or expired	1	1	2	3
NZX-listed companies	178	205	190	195
FMC audits	1,200	1,250	1,300	1,300
Firms reviewed	4	6	5	7
Audit files reviewed	20	28	24	27

12: This includes six registrations of firms that operate under two brand names

Glossary

Accounting standards /NZ IFRS	The New Zealand equivalent to International Financial Reporting Standard issued by the External Reporting Board.
AR Act	Auditor Regulation Act 2011
AOC	This is the Auditor Oversight Committee established by the FMA that provides an independent forum to review the consistency and fairness of all quality review reports. The members of AOC are a diverse group of professionals including ex-auditors partners, company directors, and other people with relevant experience.
Audit firm	Registered audit firm as defined by the AR Act.
Auditing and Assurance Standards	The auditing and assurance standards issued by the External Reporting Board
Auditing standards	International Standard on Auditing (New Zealand) to be applied in conducting audits of historical financial information as issued by the External Reporting Board
Auditor	Licensed auditor as defined by the AR Act.
Domestic licensed auditor	Auditor who is licensed in New Zealand by an accredited body
Domestic licensed registered audit firm	Audit firm that is licensed in New Zealand by an accredited body
EQCR	Engagement Quality Control Review. This is a process designed to provide an objective evaluation, on or before the date of the auditor's report, of the significant judgments the engagement team has made and the conclusions it has reached in formulating the auditor's report.
EQCR partner	Licensed auditor who performs the EQCR. This may be a licensed auditor who is not a partner in the audit firm.
Findings	Issues raised by the FMA due to non-compliance with the auditing standards
Going concern	Under the going concern assumption, a business is viewed as continuing in business for the foreseeable future. General purpose financial statements are prepared on a going concern basis, unless those charged with governance plan to liquidate their business, cease operations, or have no alternative than to stop doing business.
IFIAR	International Forum of Independent Audit Regulators

ISA (NZ)	International Standard on Auditing (New Zealand) issued by the External Reporting Board
Financial statements assertions	When auditing accounting balance in the financial statements, the auditor should ensure the following assertions are covered: existence/occurrence, rights and obligations, completeness, accuracy, valuation, presentation/classification.
FMC reporting entity	Has the same meaning as in section 6 of the AR Act
FMC audit	Has the same meaning as in section 6 of the Auditor Regulation AR Act.
Materiality	Information is material if its omission or misstatement could influence the economic decisions of users taken on the basis of the financial statements.
NZICA	NZICA and the Institute of Chartered Accountants of Australia (ICAA) formally amalgamated on 1 January 2015 to form the Chartered Accountants Australia and New Zealand (CA ANZ). After the amalgamation, NZICA continues to regulate the accountancy profession for Chartered Accountants ANZ members who remain resident in New Zealand (and by virtue of their residence continue to be NZICA members) according to the NZICA Act 1996, and the terms of the amalgamation agreement. For the purpose of the audit oversight regime, NZICA continues to be the accredited body.
Professional scepticism	An attitude that includes a questioning mind, being alert to conditions which may indicate possible misstatement due to error or fraud, and a critical assessment of audit evidence.
PES	Professional and Ethical Standards issued by the External Reporting Board
Non-assurance service	Any engagement provided by the audit firm that doesn't meet the definition of "an engagement in which an assurance practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria".
Quality review	A review of an audit firm as defined by the AR Act.

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