

# Auditor Oversight and Liability

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## Context

NZ's audit profession rates highly when compared globally

NZ cannot be a global outlier

The role of audit is poorly understood

Maintaining NZ's competitiveness demands public policy excellence

# The Changes

Auditors of Issuers are to be licensed

Professional bodies are to be accredited and subject to oversight

The FMA will be able to assume the roles of professional bodies if necessary

Auditing standards are to carry the force of law

Overseas auditors are to be subject to the same regulatory oversight

The Auditor General is exempted from the licensing regime

# Implications

Minimum standards for what it takes to be a Licensed Auditor will need to be developed

NZICA will not be the only body able to license auditors and carry out front line regulatory functions

Licensed Auditors will face criminal sanctions

Licensed Auditors may bear some or all of the cost of the oversight regime

# Implications

Audit quality may well improve

Investors and other market participants may gain greater confidence in financial information

NZ's regulatory regime will be aligned with other important jurisdictions

# Implications

The licensing regime may reduce competition in audit

The proposals for overseas auditors leave a regulatory gap and an unlevel playing field

Exempting the Auditor General is problematic

The cost of audit will rise

# Legal Enforceability of Auditing Standards

Auditing standards are not rules, they are principles that were never written with the intent of enforceability

Breaches of Auditing Standards are properly matters for the disciplinary processes of professional bodies or civil law

Auditors already face significant incentives to comply with Auditing Standards

There is no evidence that having Auditing Standards carry the force of law has improved audit quality

# Auditor Liability

Australia has and the European Community is in the process of reforming Auditor Liability

Statutory caps, limited liability forms of organisation and proportionate liability are options that have been discussed in NZ

The combination of unlimited liability and insufficient insurance cover is a barrier to entry and threatens existing firms

The existence of unlimited liability creates a moral hazard with regard to the care and diligence undertaken by those seeking to rely on audited financial statements



# Auditor Liability

Auditors currently can become liable for others' negligent actions

Currently registered overseas auditors use limited liability structures when auditing NZ entities

Unlimited liability affects the attractiveness of the audit profession

The introduction of the Auditor Oversight Bill in its current form will exacerbate that.