

Our Ref: LAR-A15-02-06/1524

Your Ref:

10 July 2007

Dear Partner(s)

LINZ *e-dealing* Audit Pilot Report

LINZ presently operates a compliance review programme to provide assurance as to the integrity of the *e-dealing* system. A recent evaluation of the compliance review process revealed that there was an opportunity to use a more effective regulatory approach by encouraging law firms to develop their own internal *e-dealing* systems and controls.

This audit method is described as a system, risk and controls-based method which encourages ownership and management of risk and is recognised as best practice.

A pilot based on this audit approach involving four law firms has been completed and the results have been summarised in the enclosed report. The pilot aimed to assess the feasibility of this approach and to gauge the extent of systems, controls and monitoring necessary within law firms to provide assurance that *e-dealing* compliance requirements are being met.

The results from the pilot indicate that the concept of a system, risk and controls-based audit approach is feasible and could be phased in with law firms on a voluntary basis over a period of time. A copy of the report showing these results is included as an attachment to this letter.

Following discussions with the New Zealand Law Society, this audit approach has been endorsed by the Property Law Section and a letter of support signed by Chris Moore, Chair is enclosed as an attachment.

As we embark on this initiative you will have the opportunity to comment on the proposed audit methodology and implementation timeframes. Further information about these matters will be published on the LINZ website in due course, and I would welcome your feedback. .

LINZ will continue with the traditional compliance review process by sampling a law firm's *e-dealing* documentation, but will consider scaling back the level of compliance reviews for participating law firms who receive a positive report from an audit visit.

If you have any queries or comments on these matters please contact our audit Team Leader, Helen Patterson Regulatory Quality Assurance LINZ by email hpatterson@LINZ.govt.nz or phone DDI 04-460 0377.

Thank you.

Yours sincerely

A handwritten signature in black ink, appearing to be 'R. Muir', is centered on a light gray rectangular background.

Robbie Muir
Registrar-General of Land



10 July 2007

LINZ *e-dealing* Audit Pilot

LINZ has been investigating methodology whereby its compliance activities will focus on systems and controls, which should minimise the need for transactional sampling and mean less compliance reviews for most firms. If firms have sound, risk-based systems and controls in place that should provide a level of assurance that *e-dealings* certified by lawyers within that firm comply with the regulatory requirements.

Enclosed is a summarised report outlining the results from the recent *e-dealing* audit pilot of four law firms.

The Section has considered the report, and acknowledges the benefit to the profession concerning the proposed new *e-dealing* audit methodology. It supports LINZ's intention to introduce the new approach during the next year.

The new system will not replace the existing transaction-based compliance review process, but will instead continue to operate in parallel with the existing system.

Please send any feedback on the report to Helen Patterson, Audit Team Leader - LINZ Regulatory by email hpatterson@linz.govt.nz or phone DDI 04-460 0377.

Yours sincerely

Chris Moore
Chair



Regulatory Quality Assurance

e-dealing Pilot Report

June 2007

1. Introduction

LINZ operates a compliance review programme to provide assurance that regulatory requirements for the Landonline *e-dealing* system are met. To date this has involved periodic sampling of transactions to verify that conveyancers hold the relevant authorities and documentation to support their certifications.

LINZ has reviewed this methodology and identified that there is an opportunity to more effectively target compliance activities by focussing on law firm systems and controls.

The concept is that if law firms have sound risk, system and controls-based processes in place that should provide a level of assurance that *e-dealings* certified by conveyancers within that firm comply with the regulatory requirements. This in turn should minimise the need for transactional sampling.

To evaluate this concept a pilot was designed by LINZ in consultation with the NZ Law Society Land Titles Committee, to study the extent of the risk, system and controls-based audit method used in law firms and the relevance of existing systems to *e-dealing* requirements.

2. Pilot Approach

The purpose of the pilot was to test the feasibility of a risk, system and controls-based approach and then proceed, subject to the outcome, by either developing a second pilot of law firms or fully implementing the proposed audit methodology.

Selection Criteria

The law firms participating in the pilot were selected according to the following criteria:

- Higher users of *e-dealing*
- Range of practice size
- Geographic distribution
- Nature, type and status of firms including ISO QMS certified
- Length of time registered with *e-dealing*.

Objectives

The pilot aimed to:

- Assess the current *e-dealing* audit methodology to determine the level of assurance being achieved
- Assess the effectiveness of the current *e-dealing* audit method
- Analyse the risk and audit methodologies and effective management strategies used to mitigate risk in future *e-dealing* processes

- Define an audit methodology which reflects good practice
- Propose relevant *e-dealing* risk and audit methodologies and present to management for discussion.

Reporting

A final report summarising the pilot outcomes has been discussed with the NZ Law Society Land Titles Committee. The report in the conclusion referred to the advantages experienced by law firms using consistent *e-dealing* systems and relevant internal controls. The report commented on the commendable standard of *e-dealing* practice evident in each law firm visited.

Finally, a recommendation was made to the NZ Law Society Land Titles Committee that a plan be developed to phase-in a risk, system and controls-based audit methodology within the law profession.

3. Discussion

Overview of Law Firm Visits

Twenty five law firms from a possible 1377 (Customer uptake law firms December 2006), registered an interest in participating in the pilot. Four were selected using the selection criteria, to trial the risk, system and controls-based approach. The four law firms chosen as shown in the following table were a representative group from the profession covering region, size of office and number of *e-dealing* weekly transactions completed.

Characteristics of Law Firm Participants

Law Firm	No. of Settlements Completed Each Week	Compliance Review Results	Used Documented Systems/ Checklist	Used <i>e-dealing</i> Champion/ Coordinator	Used Peer Review
Auckland	20	100%	✓	✓	
Napier	5-6	100%	✓	✓	✓
Christchurch	9	100%	✓	✓	
Temuka	2	100%	✓	✓	

The visit to each law firm was structured to include an assessment of documented *e-dealing* policy, risk management and an analysis of key internal controls. Discussion during the day with partners and staff identified evidence of regulatory compliance and monitoring processes used to effect first time compliance.

Each law firm received a report after the visit comprising of a review of *e-dealing* performance, suggestions for system improvement and evidence of good practice.

Overall Findings

Law firms visited used documented policy and procedures and produced results relative to effective systems and internal controls. Information obtained from the sampling of completed documents held on client files verified that systems were consistent and operating successfully.

During each visit the *e-dealing* systems were observed and opportunity taken to discuss with partners and staff the choice of key internal controls, the place of risk management and the monitoring arrangements used to maintain compliance with *e-dealing* requirements.

A risk system and controls-based approach can be interpreted as a management or business system consisting of a variety of internal controls including the use of checklists, templates, peer review, file review, regular external review and structured staff education programmes.

The number and type of internal controls established within a law firm varied and were performed in a variety of combinations defined by the risk inherent within each *e-dealing* process. Risk factors considered by law firms included experience of staff, level of expertise, level of expert guidance available to staff, extent of documented policy and procedures and overall size of *e-dealing* group.

Limited monitoring of *e-dealing* outcomes existed. Once *e-dealing* systems become perfected monitoring of outcomes will be recognised as an essential and effective process. Law firms acting on data received from a monitoring process improve system capability and internal control effectiveness, while placing more demand on staff to become accountable for regulatory compliance. Monitoring of systems and internal controls will add value to *e-dealing* performance.

Compliance Reviews

Following the implementation of this new audit approach, LINZ will maintain its existing compliance review programme, but will scale back the frequency of reviews for those law firms who receive a positive report from an audit visit.

Accordingly, although involvement will be voluntary, it is expected that most law firms will see the benefits of the new audit approach and seek to participate.

4. Conclusion

The intent of the pilot was to review a selected group of law firm *e-dealing* systems and from the findings either agree to plan a second pilot or propose to implement a risk, system, controls-based audit methodology, which reflects good practice and provides an acceptable level of assurance to the Registrar-General of Land.

Information obtained from the pilot showed that law firms used relevant and well designed systems and applied key controls at significant stages during the *e-dealing* process. Results showed that the key controls used were reliable, effective and had the capability to manage regulatory risk.

The results from the pilot support the concept that a risk, system and controls-based approach be phased into law firms. General response from the profession has also shown support for the introduction of this audit concept.

LINZ in consultation with the NZ Law Society Land Titles Committee has developed a timeframe to assist law firms to prepare for the phasing-in of the proposed audit methodology.

Helen Patterson
LINZ

Timeframe for Implementation

Action	Who	Date
NZLS Land Titles Committee accept proposed audit concept	NZLS Land Titles Committee LINZ	May 2007
Consult with NZ Law Society (via Land Titles Committee and Inspectorate) and law firms	NZ Law Society Inspectorate Law Firms, LINZ	June – July 2007
Develop draft audit methodology including proposed audit approach, selection criteria, audit method and timetable for implementation	NZLS Land Titles Committee Inspectorate LINZ	July - August 2007
Publish draft audit methodology on LINZ website to make available to law firms for comment	Law Firms LINZ	August 2007
Meet and discuss audit approach with District Law Societies and a selected cross –section of law firms	District Law Societies Law Firms LINZ	September – November 2007
Receive feedback on proposed audit methodology from NZLS Land Titles Committee, Inspectorate, District Law Societies and law firms	NZLS Land Titles Committee District Law Societies Law Firms LINZ	December 2007
Incorporate comments received and confirm proposed audit methodology with NZLS Land Titles Committee	NZLS Land Titles Committee LINZ	December 2007
Issue final audit methodology to all law firms and commence transition period Compliance reviews continue	NZLS Land Titles Committee LINZ	January 2008
Throughout implementation period continue to meet and discuss audit approach with members of the profession including NZLS Land Titles Committee, Inspectorate, District Law Societies and law firms	NZLS Land Titles Committee Inspectorate District Law Societies Law Firms LINZ	January – October 2008
Implement new audit approach	NZLS Land Titles Committee Law Firms, LINZ	October 2008