

December 2016

# Accredited body report

NZ Institute of Chartered Accountants

1 July 2015 to 30 June 2016

# Purpose of this report

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One of our seven strategic priorities is to ensure that frontline regulators are effective in their role. As frontline regulators, accredited bodies play a crucial role in New Zealand's financial markets. They are responsible for overseeing domestic licensed auditors and registered audit firms.

Strong financial markets depend on effective frontline regulators who consider not only the policies, processes and procedures that businesses and professionals have in place, but also their culture, conduct and activities, and how these reflect the best interests of their customers.

The Auditor Regulation Act 2011 (the Act) requires us to monitor and ensure the audit regulatory systems and processes used by accredited bodies are adequate and effective.

This report contains the findings of our monitoring assessment of the New Zealand Institute of Chartered Accountants (NZICA) for the period 1 July 2015 to 30 June 2016.

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# NZICA and its obligations

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As an accredited body, NZICA<sup>1</sup> is required by the Act to have adequate and effective systems, policies and procedures in place to perform their regulatory functions<sup>2</sup>. These functions include:

- licensing domestic auditors and registering domestic audit firms
- monitoring those registered by NZICA
- promoting and monitoring the competence of its members
- taking action against misconduct.

The Act also requires NZICA to provide to us an annual report assessing its own performance against its obligations. NZICA provided this year's report on 29 September 2016.

NZICA's self-assessment was that it had complied with all of its obligations during the year and performed all the tasks necessary to ensure its regulatory systems were adequate and effective.

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<sup>1</sup>The 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 (Chartered Accountants 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.

<sup>2</sup> NZICA's regulatory functions are set out in section 6 of the Auditor Regulation Act 2011 and in section 3 of the Auditor Regulation Act (Prescribed Minimum Standards for Accredited Bodies) Notice 2012.

# Our findings and observations

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Our findings and observations on the adequacy and effectiveness of each of the audit regulatory functions are summarised below. In each of the functions reviewed, we explained how we assessed the requirements and reached our conclusions.

## Licensing of domestic auditors and registering domestic audit firms

In our assessment of NZICA's systems, policies and procedures for processing applications to license auditors and register audit firms, we looked at whether they were designed to ensure NZICA met the prescribed minimum standards for accredited bodies. We also considered whether the applications were processed according to these systems, policies and procedures.

During the year, NZICA licensed seven auditors. We reviewed a sample of these licences to ensure they complied with the requirements set out in the prescribed minimum standard for licensed auditors and registered audit firms.

### Conclusion

All licences we reviewed were issued according to the prescribed minimum standards. NZICA had, and followed, the appropriate systems, policies and procedures to assess auditor licences and firm registrations.

## Monitoring of registered population

We reviewed the systems, policies and procedures that NZICA has for monitoring licensed auditors and registered audit firms. Other than NZICA's monitoring obligation under the Act, we contracted NZICA to perform audit quality reviews of audit firms on our behalf during the period reviewed.

We assessed the adequacy and effectiveness of NZICA's monitoring work to ensure it addressed the specific impact, outcomes and outputs of our current plan for oversight and regulation of auditors. We also assessed how NZICA developed and implemented strategies to address or mitigate issues of non-compliance and other matters of concern identified through complaints and monitoring.

### Conclusion

We found NZICA had the appropriate systems, policies and procedures in place to monitor its licensed auditors and registered audit firms, and to mitigate any issues of non-compliance identified through its complaints process.

As at 1 July 2016, we have moved the audit quality reviews of registered audit firms in-house. As part of this process, we will share the reports of registered audit firms with NZICA to provide additional information to support its on-going monitoring processes without imposing additional burden on audit firms.

## Promoting and monitoring competence

We considered whether NZICA had high quality and valuable courses, seminars, conferences, structured initiatives and training events to promote auditor competence. We also considered whether these were well-tailored to the needs of the industry, reasonably priced and held at appropriate locations around the country. We assessed NZICA's policies for taking action against licensed auditors who failed to meet the on-going competence requirement.

### Conclusion

We found that NZICA met the requirements for promoting and monitoring competence. The current training provided to the licensed population is sufficient to maintain and extend their knowledge on auditing and accounting standards.

NZICA also took appropriate action against licensed auditors who failed to meet the on-going competence requirement.

## Taking action against misconduct

We reviewed whether NZICA has the appropriate systems, policies and procedures to meet the requirements of the Act for taking action against misconduct. We considered whether the prescribed minimum standards for accredited bodies were being met, and whether NZICA continued to comply with the standards.

We reviewed complaints and disciplinary procedures against licensed auditors, or registered audit firms, to ensure compliance with NZICA's own systems, policies and procedures, and the required minimum standards.

### Conclusion

We found that NZICA has appropriate systems, policies and procedures in place to discipline its members, and that the systems, policies and procedures met the requirements.

We have made recommendations regarding the disclosure of disciplinary matters on the audit register. NZICA will take into account our comments about providing context in future notices about disciplinary decisions.

## Future focus

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We will continue to monitor NZICA's compliance with the requirements of the Act, the prescribed minimum standards and conditions of its accreditation.

We will also continue to perform monitoring visits to assess NZICA's audit regulatory systems and their operational effectiveness.

We will undertake our monitoring work over the course of a review period where possible, rather than at the end of a review period.

If we identify any weaknesses or areas needing improvement, we will discuss these in a timely manner with NZICA. This should allow NZICA time to adjust and improve systems and processes during the period if necessary. Although we have the power to issue a direction requiring an accredited body to amend its systems and processes, our expectation is that any issues identified will be remedied on a voluntary compliance basis without the need for a formal process.