

Accredited Body Report – CPA Australia

For the period ended 30 June 2013



Financial Markets Authority

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Context of this report

The Auditor Regulation Act (**the Act**) requires¹ the Financial Markets Authority (**FMA**) to assess to what extent CPA Australia, as an accredited body under the Act:

- has adequate and effective audit regulatory systems
- complies with its obligations under:
 - the Act
 - the Auditor Regulation Act (Prescribed Minimum Standards for Accredited Bodies) Notice 2012² ('the Notice')
 - its conditions of accreditation.

CPA Australia's obligations under the Act require it to have adequate and effective systems, policies and procedures in place to perform its regulatory functions³. These functions include:

- licensing of domestic auditors and registering domestic audit firms
- monitoring the population registered by CPA Australia
- promoting and monitoring competence
- taking action against misconduct.

This report contains the outcome of FMA's assessment and covers the period 18 October 2012 to 30 June 2013 (the review period).

FMA's approach to regulation

FMA's principal objective is to promote the development of fair, efficient and transparent financial markets. Our approach is to work with financial market participants in an open and educative way, to achieve best standards of compliance. We seek to be clear about FMA's expectations, while providing the market scope to develop the way it meets these expectations.

FMA monitors market participants' compliance with the obligations imposed upon them. Our monitoring activities are designed to facilitate voluntary compliance by market participants, and are one of the ways through which we communicate our expectations and work to raise standards. Our expectations of regulated participants increase over time, as regulatory regimes are embedded.

¹ See section 55 of the Auditor Regulation Act 2011

² See Prescribed Minimum Standards for Accredited Bodies on FMA's website (<http://www.fma.govt.nz/compliance/licensing-and-registration/licensing-forms-and-resources/auditors/>)

³ 'regulatory functions' is defined in section 6 of the Act



Summary

Our conclusion

During the review period, FMA found that CPA Australia's audit regulatory systems were adequate and effective.

This reflects the assessment made by FMA when it granted CPA Australia status as an accredited body in October 2012. FMA notes that during the review period, CPA Australia had no licensed auditors or registered audit firms and there has been no significant changes to CPA Australia's audit regulatory systems. This assessment is limited to the design and existence and not the operation of the regulatory systems.

1 CPA Australia and its obligations

1.1 CPA Australia

CPA Australia is a professional accounting body with its head office in Melbourne, Australia and its New Zealand office in Auckland. It has a diverse membership and a significant presence internationally. FMA accredited CPA Australia on 18 October 2012.

1.2 CPA Australia's obligations

As an accredited body, CPA Australia is responsible for maintaining adequate and effective systems and processes for performing the necessary regulatory functions.

An overview of CPA Australia obligations as an accredited body under the Act and the Notice are set out in Appendix 1 of the report.

1.3 Obligations on CPA Australia to self-assess

The Act requires CPA Australia to produce an annual report assessing its own performance against its obligations⁴. In particular the report must contain:

- information relating to the accredited body's performance in carrying out regulatory functions for the purposes of the Act
- information relating to any material changes to the accredited body's audit regulatory systems that it has implemented, is in the process of implementing, or is considering implementing (including stating what it has done in response to any direction issued under section 56 of the Act)
- any other prescribed information.

1.4 CPA Australia Assessment Report

CPA Australia provided FMA with its annual report for the period 18 October 2012 to 30 June 2013, on 9 August 2013, in accordance with the requirements of the Act. The report noted that:

- it had been produced to satisfy the requirements of the Act
- it had been prepared against the requirements of section 51 of the Act.

CPA Australia's self-assessment was that it had complied with all of its obligations during the review period and it concluded that it had performed all the necessary tasks to ensure their regulatory systems are adequate and effective.

⁴ See section 51 of the Auditor Regulation Act 2011



The annual report provided information regarding CPA Australia's audit and regulatory systems in respect of:

- licensing and registration
- monitoring and general oversight:
 - compliance with codes of ethics
 - compliance with conditions of licence and registration
 - compliance with minimum standards
 - compliance with auditing and assurance standards in the performance of issuer audits
 - compliance with other requirements applying to licensed auditors or registered audit firms under the Act and any other enactment that relates to the conduct of issuer audits
 - overview of current or emerging issues in the audit profession
 - developing and implementing strategies to address or mitigate issues of non-compliance or other matters of concern identified through complaints and monitoring
- education and training
 - overview of how CPA Australia promotes, monitors and reviews its licensed auditors' on-going competence
 - overview of non-compliance
- complaints, enquiries, investigations and discipline
 - overview of the complaints process and number of complaints
 - outcome of investigations.

2 FMA's Assessment

2.1 Obligation on FMA to assess accredited bodies

The Act requires FMA to prepare a report on the extent to which the audit regulatory systems of each accredited body are adequate and effective, no later than six months after the start of each financial year.

2.2 Approach to FMA's assessment

FMA's overall mandate is to strengthen public confidence in New Zealand's financial markets and to promote innovation and growth of New Zealand's capital base through effective regulation. In respect of the Act, FMA's purpose is to promote quality, expertise and integrity in the professional status of auditors, and to promote the recognition of the professional status of New Zealand auditors in overseas jurisdictions. CPA Australia is one of two accredited bodies that monitor the compliance of New Zealand's licensed auditors and registered audit firms.

The assessment process provides FMA with the opportunity to report on the adequacy and effectiveness of the audit regulatory systems CPA Australia had in place during a particular review period, and to identify issues that in our view, may need to be addressed to ensure CPA Australia's continued compliance.

FMA engaged with CPA Australia throughout the review period. Our plan for ongoing oversight of CPA Australia as an accredited body is set out in FMA's Auditor Regulation and Oversight Plan 2013-2016⁵.

Methodology

FMA reviewed the following as part of the accreditation process of CPA Australia:

- systems, policies and procedures in place for auditor oversight
- CPA Australia board papers and minutes relevant to auditor oversight responsibilities
- onsite review of files and logs relevant to auditor oversight.

FMA's ongoing oversight of CPA Australia involved the following:

- regular meetings to discuss and address issues
- CPA Australia's own assessment of its compliance with its requirements, contained in its annual report to FMA
- review of changes in regulatory systems, policies and processes, if applicable
- onsite reviews of files and logs, followed by feedback to CPA Australia after each review.

⁵ A copy of this plan is available from FMA's website http://www.fma.govt.nz/assets/Reports/_versions/3334/130601-auditor-regulation-and-oversight-plan-2013-2016.1.pdf

3 General observations

This section sets out FMA's assessment of how CPA Australia has met its requirements as an accredited body. Our observations and conclusions on the adequacy and effectiveness of the audit regulatory functions have been summarised in the following four areas:

- licensing of domestic auditors and registering domestic audit firms
- monitoring the population registered by CPA Australia
- promoting and monitoring competence
- taking action against misconduct.

Each of the observations contains a high level explanation of how FMA assessed the requirements, followed by the observations and conclusions reached on each of the regulatory functions.

CPA Australia did not license any auditor or register any audit firm during the review period. FMA's assessment of CPA Australia's compliance with the requirements, is therefore assessed on the accreditation process, and any further documentation provided by CPA Australia to fully comply with the conditions of the accreditation. FMA was not able during the review period to monitor the performance of these systems during this review period because at this time CPA Australia does not have any licensed auditors or registered firms.

3.1 Licensing of domestic auditors and registering domestic audit firms

FMA's assessment of this requirement

FMA reviewed the systems, policies and processes for assessing and approving:

- academic qualifications
- memberships and conduct rules
- licensed auditors and registered audit firms.

In assessing an accredited body's systems, policies and procedures relating to the processing of applications for licensing auditors and registering audit firms, FMA considered whether these systems, policies and procedures are designed to ensure that CPA Australia meets the prescribed minimum standards for accredited bodies in respect of licensing and registering of auditors and audit firms. FMA also reviewed whether applications are processed by the accredited body in accordance with these systems, policies and procedures.

Conclusion

FMA concluded during the accreditation process that CPA Australia had the appropriate systems, policies and procedures in place to meet the above requirements.

3.2 Monitoring its registered population

FMA's assessment of this requirement

We reviewed the systems, policies and procedures that accredited bodies have in place for monitoring licensed auditors and registered audit firms, and assesses the adequacy and effectiveness of that work, to ensure that it addressed the specific impacts, outcomes and outputs of our current plan for oversight and regulation of auditors.

FMA also assessed how an accredited body develops and implements strategies to address, or mitigate, issues of non-compliance and other matters of concern identified through complaints and monitoring.

Conclusion:

FMA concluded during the accreditation process that CPA Australia had the appropriate systems, policies and procedures in place to monitor licensed auditors and registered audit firms and to mitigate issues of non-compliance identified through its complaints process.

3.3 Promoting and monitoring competence

FMA's assessment of this requirement

FMA considers whether:

- (a) courses, seminars, conferences and other structured training provided by an accredited body (which is external to a particular audit firm) are, and are seen by the industry to be, of a high quality and well-tailored to the needs of the industry, and are seen by the industry to be reasonably priced for the nature of the course
- (b) these are offered at appropriate locations around New Zealand, particularly where physical attendance is required or preferable. FMA expects a reasonable number of courses to be run in New Zealand. This does not however, prevent an accredited body from inviting New Zealand based licensed auditors to attend courses run overseas, or from offering courses through remote access technology, such as video conferences or webinars
- (c) courses are also open to auditors licensed by other accredited bodies and overseas licensed auditors, the broader audit profession, and (where appropriate given the nature of the course) non-auditors interested in the subject matter.

FMA will also assess the accredited body's policies for taking action against licensed auditors who fail to meet the ongoing competence requirement.

Conclusion

FMA concluded that CPA Australia had met the requirements.



3.4 Taking action against misconduct

FMA's assessment of this requirement

FMA whether or not the accredited body has the appropriate systems, policies and procedures in place to meet the requirements for taking action against misconduct as set out in the Act. We also assessed if the prescribed minimum standards for accredited bodies are being met and whether the accredited body continues to comply with the standards.

FMA also reviews a sample of complaints and disciplinary procedures against licensed auditors or registered audit firms, to ensure compliance with the system, policies and procedures of the accredited body and the required minimum standards.

Conclusion

FMA concluded during the accreditation process and a follow up review that CPA Australia had the appropriate systems, policies and procedures in place to discipline its members, and that the systems, policies and procedures meet the requirements.

4 Future focus

FMA is satisfied with CPA Australia's engagement as an accredited body. We will continue to take a proactive approach to the assessment of the accredited bodies systems and processes. In addition to other monitoring, FMA will perform monitoring visits to assess the compliance with these systems when CPA Australia has issued an auditor licence. We will undertake our monitoring work over the report period where possible, rather than waiting until the end of the review period. This should allow CPA Australia to adjust and improve its systems and processes during the period if necessary.

The monitoring visits will focus specifically on:

- licensing of domestic auditors and registering domestic audit firms
 - FMA will review newly issued and renewed licenses for compliance with the minimum standards
- monitoring the population registered by CPA Australia
 - compliance with maintaining a code of ethics by reviewing the outcomes of practice reviews performed by accredited bodies for their members
 - complaint process implemented by the accredited body
- promoting and monitoring competence
 - FMA will review the compliance of licensed auditors with the requirements of CPA Australia and the prescribed minimum standards for licensed auditors by reviewing a sample of the licensed auditors
- taking action against misconduct
 - FMA will review accredited bodies' processes for responding to complaints and other issues as noted through the practice reviews and our quality reviews by reviewing a sample of complaints of compliance with these processes.

FMA will continue to liaise with CPA Australia on an ongoing basis, in respect to any reports or notifications made by the accredited body, or where appropriate, to share intelligence provided to FMA.

If FMA identifies any weaknesses or areas for improvement within the accredited body, we expect to discuss these in a timely fashion with the accredited body. FMA has the power to issue a direction requiring an accredited body to amend its systems and processes. However, we expect in the majority of instances it will be more effective for any issues identified to be remedied through constructive dialogue between ourselves and the accredited body, with any appropriate remedial action being taken without the need for a formal process.

Appendix 1 – Obligations of an accredited body

The obligations of CPA Australia as an accredited body are set out in the Act and the Notice and include:

Licensing of domestic auditors and registering domestic audit firms

Under section 6 of the Act an accredited body is responsible for maintaining adequate and effective systems and processes for regulatory functions:

- (a) considering applications for licences, issuing licences, and setting conditions of licences
- (b) considering applications for the registration of audit firms and setting conditions of registration.

Section 3 of the Notice requires accredited bodies to have adequate and effective systems, policies and processes for:

- (r) assessing and approving academic qualifications, and must have a published a list of the academic qualifications which have been approved, for the purposes of the minimum standards for licensed auditors prescribed by FMA under the Act
- (s) granting membership and conduct rules which are appropriate and effective in terms of the role of an accredited body and the purposes of the Act
- (t) approving licensed auditors to act as assessors, and for monitoring the assessment and supervision of prospective licensed auditors by assessors
- (u) how it acts, or proposes to act, in imposing, varying, removing or adding conditions to auditor licences and audit firm registrations, and must have processes for reporting on the application of those policies.

Monitoring its registered population

Under section 6 of the Act an accredited body is responsible for maintaining adequate and effective systems and processes for regulatory functions:

- (c) adopting, implementing and monitoring codes of ethics
- (d) monitoring compliance with auditing and assurance standards.

Section 3 of the Notice requires accredited bodies:

- (v) to have adequate and effective systems, policies and processes for:
 - a. monitoring licensed auditors and registered audit firms compliance with conditions of license and registration, respectively
 - b. monitoring continued compliance with the minimum standards for licensed auditors and registered audit firms
 - c. monitoring compliance with other requirements applying to licensed auditors or registered audit firms under the Act and any other enactment that relates to the conduct of issuer audits
 - d. monitoring compliance with the applicant's conduct rules by licensed auditors
 - e. identifying and monitoring other current or emerging issues in the audit profession.
- (w) have adequate and effective processes for developing and implementing strategies to address or

mitigate issues of non-compliance or other matters of concern, including those identified through complaints and monitoring

Promoting and monitoring competence

Under section 6 of the Act an accredited body is responsible for maintaining adequate and effective systems and processes for regulatory functions:

- (e) promoting, monitoring, and reviewing the on-going competence of members

Taking action against misconduct

Under section 6 of the Act an accredited body is responsible for maintaining adequate and effective systems and processes for regulatory functions:

- (f) inquiring into the conduct of members and audit firms
- (g) investigating complaints against members, audit firms and former members
- (h) hearing complaints about, and taking disciplinary action against its members, former members and audit firms
- (i) dealing with appeals from decisions of the disciplinary body.

Section 3 of the Notice requires accredited bodies:

- (x) systems, policies and processes must ensure that principles of natural justice are applied at all times in relation to handling complaints, conducting enquiries and investigations, and conducting disciplinary proceedings (including appeals in relation to disciplinary proceedings)
- (y) systems, policies and processes must ensure accountability and transparency in relation to handling complaints, conducting enquiries and investigations, and conducting disciplinary proceedings (including appeals in relation to disciplinary proceedings)
- (z) to have systems, policies and processes relating to disciplinary proceedings, including decisions whether to commence disciplinary proceedings and must ensure a principled, fair and consistent approach to addressing misconduct
- (aa) must have a sufficiently independent disciplinary body to adjudicate on alleged breaches of:
 - a. auditing and assurance standards
 - b. the Act or any other enactment that relates to the conduct of issuer audits
 - c. the accredited body's conduct rules
 - d. conditions of licences or registration.
- (bb) any appeals panels must be sufficiently independent, including of the disciplinary body and any other appeals panels who have previously considered matter before it
- (cc) the range of penalties which may be imposed by the disciplinary body and any appeals panels must include penalties which are sufficiently stringent to address the most serious breaches, and must include a scale of penalties which ensures a proportionate penalty can be imposed in relation to all breaches.



