

December 2014

Accredited Body Report – New Zealand Institute of Chartered Accountants

For the period ended 30 June 2014

This report should be read by:
Accredited bodies
Auditors
Directors
Issuers

About the FMA

The FMA is an independent Crown entity with a mandate to promote and facilitate the development of fair, efficient and transparent financial markets. We work with financial markets participants to raise standards of good conduct, ethics and integrity, and to achieve best standards of practice and compliance.

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Introduction

Under the *Auditor Regulation Act 2011* (the Act), the Financial Markets Authority (FMA) may grant accreditation to a professional accounting body or another qualified person to carry out certain regulatory functions¹ on behalf of the FMA, such as issuing licences to auditors.

An accredited body must have systems and processes in place for performing regulatory functions, referred to as audit regulatory systems. The Act requires the FMA to monitor the audit regulatory systems of an accredited body and prepare an annual report on the extent to which the audit regulatory systems of the accredited body are adequate and effective.

In order to assess the adequacy and effectiveness of audit regulatory systems, the FMA considers the accredited body's compliance with its obligations under:

- the Act
- the Auditor Regulation Act (Prescribed Minimum Standards for Accredited Bodies) Notice 2012 (the Notice)
- any conditions of accreditation.

This report contains the outcome of our assessment of the New Zealand Institute of Chartered Accountants (NZICA) for the period 1 July 2013 to 30 June 2014 (*the Review Period*).

During the Review Period, NZICA's audit regulatory systems were found to be adequate and effective. We reviewed the effectiveness of the audit regulatory systems of NZICA through on-site monitoring visits we undertook during the Review Period. Our review was consistent with the approach set out in the Auditor Regulation and Oversight Plan for the three years ending June 2016².

Our monitoring visits resulted in a small number of recommendations, which by the end of the Review Period had been implemented by NZICA. The main recommendation we made during the Review Period related to NZICA's disciplinary process for licensed auditors. We recommended enhancements to NZICA's internal processes for dealing with misconduct allegations and the communication of this process to licensed members.

¹ Regulatory functions that may be performed by accredited bodies are defined in section 6 of the Act

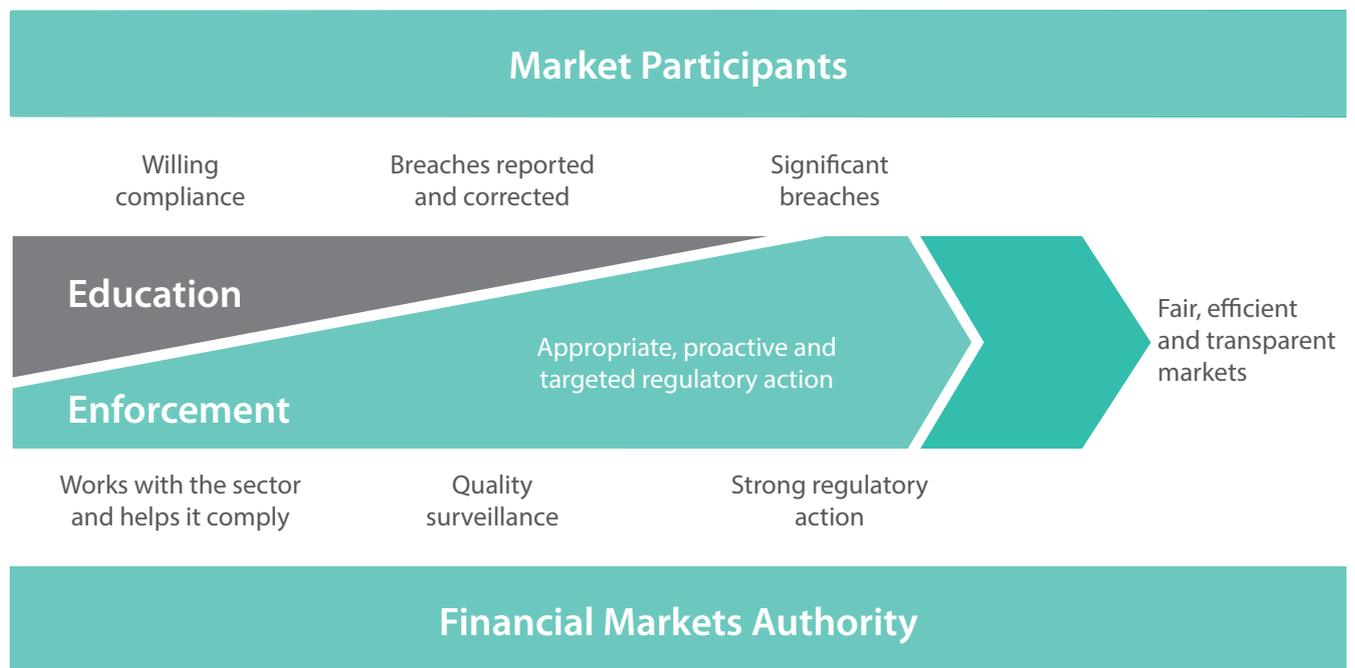
² <https://fma.govt.nz/assets/Uploads/auditor-regulation-and-oversight-plan-2013-final.pdf>

The FMA's approach to regulation

Our approach to regulation is to work with financial markets participants in an open and educative way, to achieve best standards of compliance. We seek to be clear about our expectations, while providing market participants with scope to develop the way they meet these expectations.

While some areas of the auditor oversight regime are carried out by us directly, other significant areas are delivered through monitoring the effective discharge by accredited bodies of their functions as frontline regulators. We expect accredited bodies to make a significant contribution to the delivery of the desired outcomes of this regime and we will monitor these bodies on their obligations.

Our risk-based regulatory philosophy



We will work with NZICA to:

- support the financial markets sector to understand and willingly comply with our expectations
- encourage participants to promptly report and correct regulatory breaches
- identify significant breaches of licensed auditors and registered audit firms and address them promptly
- work to minimise regulatory burden for participants dealing with multiple regulators
- ensure our education, surveillance and enforcement functions work cohesively to support a strong deterrent effect.

NZICA and its obligations

NZICA is a professional accounting body with a large membership in New Zealand and an international presence. It has a head office in Wellington, 14 regional offices and three overseas offices.

On 1 November 2013, NZICA announced that members of the Institute of Chartered Accountants Australia (ICAA) and NZICA had voted in favour of a proposal to amalgamate and create one new institute. The new institute, Chartered Accountants Australia and New Zealand (CAANZ) is currently awaiting changes to the *NZICA Act 1996* and to the Australian Royal Charter, to formalise the legal structure approved by members. For the purpose of the auditor oversight regime, NZICA will remain the accredited body.

As an accredited body, NZICA's obligations under the Act require it to have adequate and effective systems, policies and procedures in place to perform regulatory functions.

These functions include:

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

The Act requires NZICA to provide an annual report to the FMA assessing its own performance against its obligations. NZICA provided this report for the Review Period on 18 September 2014, in accordance with the requirements of the Act.

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

Our findings and observations

This section sets out our assessment of how NZICA met its requirements as an accredited body during the Review Period. Our findings and observations on the adequacy and effectiveness of the audit regulatory functions have been summarised below. Each observation provides a high level explanation of how we assessed the requirements and the conclusions we reached on each of the regulatory functions.

Licensing of domestic auditors and registering domestic audit firms

When assessing NZICA's systems, policies and procedures for processing applications of licensing auditors and registering audit firms, we looked at whether they were designed to ensure NZICA met the prescribed minimum standards for accredited bodies, and were processed in accordance with these systems, policies and procedures. During the year NZICA licensed 123 auditors and registered 28 audit firms which included 115 auditors and 27 audit firms, that had a transitional licence previously.

Conclusion

We concluded that NZICA had the appropriate systems, policies and procedures in place to meet the requirements. From our monitoring we found the systems, policies and procedures were followed when issuing licenses and granting registrations.

Monitoring its registered population

We reviewed the systems, policies and procedures that NZICA had in place for monitoring licensed auditors and registered audit firms, and assessed the adequacy and effectiveness of that work to ensure it addressed the specific impacts, 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 concluded that 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. We provided NZICA with some recommendations to develop its monitoring procedures for licensed auditors who required significant improvements in their last audit quality review.

Promoting and monitoring competence

We considered whether courses, seminars, conferences, and other structured initiatives and training provided by NZICA to promote auditor competence were of high quality and seen by the industry as valuable. We also looked at 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 fail to meet the ongoing competence requirement.

Conclusion

We found that NZICA met the requirements for promoting and monitoring competence. We also found that appropriate action was taken by NZICA in circumstances where a licensed auditor failed to meet the ongoing competence requirements. In these instances NZICA issued a warning and required the licensed auditor to confirm their continuing professional development hours for the upcoming year. NZICA will continue to monitor whether these hours are met.

Taking action against misconduct

We reviewed whether or not NZICA had the appropriate systems, policies and procedures in place 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 was continuing 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 had the appropriate systems, policies and procedures in place to discipline its members, and that the systems, policies and procedures met the requirements.

We found that the clarity of NZICA's disciplinary process for complaints about licensed auditors could be improved. The FMA provided recommendations to NZICA to improve internal processes for dealing with misconduct allegations and communication of this process to licensed members. As a result of our recommendations, NZICA will publish a policy in the beginning of 2015 so that members understand the processes followed by NZICA when a complaint against a licensed auditor is made.

Looking forward

Ongoing monitoring

We will continue to monitor NZICA's compliance with the requirements of the Act and 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 continue to 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 for 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.

Our approach

We will take a proactive approach to the assessment of NZICA's systems and processes, and review any changes made to auditor regulatory procedures as a result of the merger of NZICA and ICAA, to ensure that it continues to comply with the Notice.

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.

Appendix 1 – Obligations of an accredited body

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

Licensing of domestic auditors and registering domestic audit firms

Section 6 of the Act defines *regulatory functions*, for which an accredited body is responsible for maintaining adequate and effective systems and processes:

- (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 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

Section 6 of the Act defines *regulatory functions*, for which an accredited body is responsible for maintaining adequate and effective systems and processes:

- (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

Section 6 of the Act defines *regulatory functions*, for which an accredited body is responsible for maintaining adequate and effective systems and processes:

- (e) promoting, monitoring, and reviewing the ongoing competence of members.

Taking action against misconduct

Section 6 of the Act defines regulatory functions, for which an accredited body is responsible for maintaining adequate and effective systems and processes:

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

Section 3 of the Notice requires that:

- (x) the systems, policies and processes of an accredited body 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) the systems, policies and processes of an accredited body 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) the systems, policies and processes of an accredited body relating to disciplinary proceedings, including decisions whether to commence disciplinary proceedings, must ensure a principled, fair and consistent approach to addressing misconduct
- (aa) the accredited body 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.

Glossary

Accredited Body Report – New Zealand Institute of Chartered Accountants

Act (as referenced in this report)	<i>Auditor Regulation Act 2011</i>
CAANZ	Chartered Accountants Australia and New Zealand
FMA	Financial Markets Authority
ICAA	Institute of Chartered Accountants Australia
Notice (as referenced in this report)	Auditor Regulation Act (Prescribed Minimum Standards for Accredited Bodies) Notice 2012
NZICA	New Zealand Institute of Chartered Accountants
Review Period	1 July 2013 to 30 June 2014

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