



DECEMBER 2021

Accredited body report – CPA Australia

Findings from the FMA's review of the adequacy and effectiveness of CPA Australia's audit regulatory systems for the period 1 July 2020 to 30 June 2021

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Contents

Executive summary	3
About this report	3
About CPA and its obligations	3
How we approached this review	4
Overall assessment	4
Focus areas	5
Membership, licensing and registration	5
Monitoring and general oversight	5
Promoting and monitoring competence	6
Complaints, enquiries, investigations and discipline	6
Future focus	7

Executive summary

About this report

The Auditor Regulation Act 2011 (the Act) requires the FMA to monitor the audit regulatory systems of accredited bodies and report annually on the extent to which the systems are adequate and effective.

As frontline regulators, accredited bodies play a crucial role in New Zealand's financial markets, with responsibility for overseeing domestic licensed auditors and registered audit firms. One of the FMA's strategic intentions is to promote trust and confidence in capital markets, and this includes monitoring the licensed auditor population and the quality of audits.

This report contains the findings of our monitoring assessment of CPA Australia (CPA) for the period 1 July 2020 to 30 June 2021.

About CPA and its obligations

CPA Australia has over 166,000 members in more than 100 countries, with an office in Auckland and its head office in Melbourne. In New Zealand, CPA has issued one licence to audit FMC reporting entities and one firm registration.

CPA was granted accreditation by the FMA on 18 October 2012.

As an accredited body, CPA is required by the Act to have adequate and effective systems, policies and procedures in place to perform its regulatory functions. In addition, the FMA further prescribed minimum standards for accredited bodies in relation to governance and organisational structures, internal compliance procedures, policies and audit regulatory systems.

In relation to this review, audit regulatory systems¹ include:

- Membership, licensing and registration
- Monitoring and general oversight
- Promoting and monitoring the competence of members
- Complaints, enquiries, investigations and discipline

The Act also requires CPA to provide to the FMA an annual report assessing its own performance against its obligations.

¹ Requirements of 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

How we approached this review

We carried out a comprehensive review of CPA's regulatory systems, employing a risk-based approach and exercising judgement in selecting the level and detail of work performed in each area. We reviewed policies and procedures, undertook various sample tests and interviewed CPA Australia personnel.

We also reviewed CPA's annual report and self-assessment, provided to the FMA on 30 September 2021. CPA's self-assessment stated it continues to meet its obligations as an accredited body.

Overall assessment

While we do not have specific concerns relating to compliance, further improvements are needed to enhance CPA's monitoring processes. We acknowledge the scale of CPA's current FMC licensed auditor population, and that CPA has been making some improvements to its monitoring processes during the review period with the intention to restart proactive monitoring reviews in late 2021. In this regard, we concluded CPA's audit regulatory systems relevant to our review were adequate and effective.

Focus areas

Our findings and observations on the adequacy and effectiveness of each of the audit regulatory functions are summarised below. For each function, we explain how we assessed and reached our conclusions.

Membership, licensing and registration

During the review period, CPA renewed the licence of its one FMC licensed auditor. There were no cancellations. We reviewed the application for this licence renewal to determine if it was undertaken in accordance with CPA's policies and procedures, and complied with the requirements set out in the prescribed minimum standard for licensed auditors and registered audit firms.

We considered whether CPA's systems, policies and procedures for processing applications to license and register domestic auditors and audit firms are designed to ensure CPA meets the prescribed minimum standards for accredited bodies.

Conclusion

The FMA made one recommendation to CPA to further enhance its renewal process, but deemed the licensing and registration processes to be adequate and effective.

Monitoring and general oversight

During the review period, CPA's Quality Review programme was replaced with the Best Practice programme. A new Best Practice Advisory Committee was established to advise management on issues relating to the Best Practice Program's development and performance, and make recommendations to the executive management team. Due to the pandemic, and the implementation of this new programme, CPA postponed its intended quality reviews and therefore no monitoring of this nature took place. We understand CPA intends to restart monitoring visits in late 2021.

We reviewed CPA's revised systems, policies and procedures for monitoring domestic licensed auditors and registered audit firms. We also assessed whether monitoring work will address the specific impact, outcomes and outputs of our current plan for oversight and regulation of auditors, as well as CPA's own risk assessments. In addition, we considered how CPA develops and implements strategies to address or mitigate issues of non-compliance and other matters of concern identified through its monitoring, complaints processes and FMA referrals.

To support CPA with ongoing monitoring, we share our audit quality review reports following each cyclical review of CPA's registered audit firm.

Conclusion

CPA Australia has the appropriate systems, policies and procedures in place to monitor its licensed auditor. However, no monitoring took place during the review period for reasons noted above. This did not impact our conclusion on CPA's systems, but we will still need to test their effectiveness once monitoring visits recommence. We made four recommendations to CPA to further enhance its monitoring and general oversight function.

Promoting and monitoring competence

We assessed CPA's policies in relation to continuing professional development (CPD) and International Education Standard 8 (IES8) requirements of members, as well as its monitoring and disciplinary protocols in ensuring licensed auditors meet their ongoing competence requirements.

We also considered CPA's educational programme, which includes online training such as webinars, events, workshops and podcasts, and reviewed a sample to determine the quality of courses to promote auditor competence and whether they respond to, and address the needs of, the industry and evolving issues.

Conclusion

We concluded that CPA meets the requirements for promoting and monitoring competence, and that training provided to the licensed population is sufficient to maintain and extend knowledge of auditing and accounting standards. We made three recommendations to CPA in order to further enhance how it promotes and monitors competence of licensed auditors.

Complaints, enquiries, investigations and discipline

During the period, we reviewed CPA's systems, policies and procedures in relation to complaints, enquiries, investigations and disciplinary matters in responding to, and taking action against, misconduct. This included a review of internal structures, and processes and protocols to respond to any FMA referrals.

We noted there were no complaints during the review period, and currently no investigations or disciplinary action in progress with regards to the FMC licensed population.

Conclusion

CPA Australia has appropriate systems, policies and procedures to discipline its members, and the systems, policies and procedures met the requirements. As there were no complaints, we were unable to test the effectiveness of these systems and procedures.

Future focus

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

We will continue to engage with CPA on its responses to the recommendations we have made as part of this review, as well as its monitoring programme as this recommences. 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 voluntarily without the need for a formal process.

