



DECEMBER 2021

Accredited body report - NZICA

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

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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.

The New Zealand Institute of Chartered Accountants (NZICA) and the Institute of Chartered Accountants of Australia (ICAA) formally amalgamated on 1 January 2015 to form Chartered Accountants Australia and New Zealand (CAANZ). However, NZICA continues to regulate the accountancy profession for members who remain resident in New Zealand. For the purpose of the audit oversight regime, NZICA is the accredited body, and therefore the subject of the FMA's annual review.

This report contains the findings of our monitoring assessment of NZICA for the period 1 July 2020 to 30 June 2021.

About NZICA and its obligations

CAANZ has over 131,000 members globally, with the majority based in Australasia. Of those, NZICA had approximately 26,000 members, with 12 registered firms and 136 licensed auditors as at 30 June 2021. CAANZ has a number of offices across New Zealand.

NZICA was granted accreditation by virtue of section 50 of the Act.

As an accredited body, NZICA 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 NZICA 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 NZICA'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 members of NZICA's Regulation and Conduct teams.

We also reviewed NZICA's annual report and self-assessment, provided to the FMA on 30 September 2021. In this report, NZICA concluded that its audit regulatory systems were adequate and effective in discharging its responsibilities as an accredited body under the Act during the year, and that it has allocated sufficient resources to ensure that its audit regulatory systems are and continue to be adequate and effective.

Overall assessment

While we do not have specific concerns relating to compliance during the review period, further improvements are needed to enhance NZICA's investigative and disciplinary processes. NZICA made some improvements during the review period, and further progress was impacted by events outside of NZICA's control. Both the FMA and NZICA are committed to engaging and agreeing on these further enhancements in the near future. We conclude all other areas of NZICA's audit regulatory systems relevant to our review were adequate and effective.

Focus areas

Membership, licensing and registration

During the year, NZICA licensed 11 new auditors, and granted 6 auditor renewals and 1 firm renewal. In addition, NZICA cancelled 6 auditor licences, all of which were voluntary requests. We reviewed a sample of all licence activity to ensure it was undertaken in accordance with NZICA'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 NZICA's systems, policies and procedures for processing applications to license and register domestic auditors and audit firms are designed to ensure NZICA meets the prescribed minimum standards for accredited bodies. We also considered whether applications were processed according to these systems, policies and procedures.

Conclusion

In all instances we found that new licences and renewals were issued in accordance with the prescribed minimum standards. We also noted enhanced procedures relating to cancellations. The FMA made one recommendation to NZICA in relation to further enhancing its registration process.

Monitoring and general oversight

NZICA has continued its risk assessments and performed a number of monitoring procedures during the review period including practice reviews, as well as reviews of financial statements and non-audit services disclosed in financial statements of FMC reporting entities. These reviews resulted in a number of enquiries. To support NZICA with ongoing monitoring, we also share our audit quality review reports following each cyclical review of the audit firms.

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

Conclusion

We made two recommendations to NZICA to further enhance its monitoring and general oversight function in response to our concerns. We do not have any specific concerns relating to compliance for work carried out in the review period and concluded monitoring and general oversight systems to be adequate and effective.

Promoting and monitoring competence

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

Conclusion

We concluded that training provided to the licensed population is sufficient to maintain and extend knowledge of auditing and accounting standards. We made two recommendations to NZICA in order to further enhance how it promotes and monitors competence of licensed auditors and, overall, concluded NZICA's systems in this regard to be adequate and effective.

Complaints, enquiries, investigations and discipline

During the period, we reviewed NZICA'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, processes and protocols, as well as enquiries and investigations in response to FMA referrals, and reporting and communications back to the FMA on such.

During the review period, NZICA made some improvements in response to our previous review and recommendations. We acknowledge that further progress was impacted by the COVID-19 lockdowns and the FMA's reprioritisation of work.

Conclusion

We have made some recommendations to NZICA in this area, including in relation to investigations where we have declared we have a genuine interest, in order for us to be able to determine whether to utilise our powers under section 75 of the Act. NZICA and the FMA are committed to engage on this in the near future.

Future focus

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

The FMA has regular contact with NZICA regarding its regulatory functions, through our Audit and Market Infrastructure teams. When required, we communicate early about our expectations, rather than waiting until the end of a review period.

We will continue to engage and work with NZICA to progress discussions regarding investigations and disciplinary processes, along with other recommendations we have made as part of this review. Throughout the next review period, and in time, we will monitor how NZICA implements changes in response to the recommendations. 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.

