

November 2018

Accredited body report

New Zealand Institute of
Chartered Accountants
1 July 2017 to 30 June 2018

Purpose of this report

This report contains the findings of our monitoring assessment of the New Zealand Institute of Chartered Accountants (NZICA) for the period 1 July 2017 to 30 June 2018.

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

One of our [strategic priorities](#) is to ensure 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 of businesses and professionals, but also their culture, conduct and activities, and how these reflect the best interests of their customers.

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NZICA and its obligations

As an accredited body, NZICA¹ is required by the Act to have adequate and effective systems, policies and procedures in place to perform its regulatory functions². These functions include:

- licensing domestic auditors and registering domestic audit firms
- monitoring those auditors and audit firms registered by NZICA
- promoting and monitoring the competence of these 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 30 August 2018.

NZICA's self-assessment stated 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.

¹ NZICA and the Institute of Chartered Accountants of Australia (ICAA) formally amalgamated on 1 January 2015 to form Chartered Accountants Australia and New Zealand (Chartered Accountants ANZ). 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.

² 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

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

Licensing domestic auditors and registering domestic audit firms

We looked at whether NZICA's systems, policies and procedures for processing applications to license auditors and register 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.

During the year, NZICA licensed five new auditors and renewed 11 licences. 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 has, and follows, the appropriate systems, policies and procedures to assess applications for auditor licences and firm registrations.

Monitoring the registered population

We reviewed NZICA's systems, policies and procedures for monitoring licensed auditors and registered audit firms.

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

NZICA has 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.

To support NZICA with its ongoing monitoring, we share relevant audit quality review reports of registered audit firms.

Promoting and monitoring competence

We considered whether NZICA has high-quality and valuable courses, seminars, conferences, structured initiatives and training events to promote auditor competence. We also considered whether these are tailored to the needs of the industry, reasonably priced and held at appropriate locations around the country.

The introduction of the new International Education Standard 8 (IES 8) made changes to the licence requirements in relation to their Continuous Professional Development (CPD) hours. NZICA engages with licensed auditors and is providing them with guidance on complying with the new requirement. We assessed NZICA's policies for taking action against licensed auditors who fail to meet the ongoing competence requirement

Conclusion

NZICA meets the requirements for promoting and monitoring competence. The training provided to the licensed population is sufficient to maintain and extend their knowledge of auditing and accounting standards.

We have made recommendations to ensure improvements are made by licensed auditors in the area of their CPD requirements and compliance with their licence conditions. We asked NZICA to consider if the current learning opportunities match developments and trends in New Zealand and internationally.

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 and registered audit firms, to ensure compliance with NZICA's own systems, policies and procedures, and the required minimum standards.

Conclusion

NZICA has appropriate systems, policies and procedures in place to discipline its members, and its systems, policies and procedures meet the requirements.

NZICA has agreed to a more regular reporting cycle for updating FMA on the progress of NZICA's investigations into auditors' conduct on FMC audits to assist FMA with its monitoring activities.

NZICA has taken into account our recommendations to further enhance its related policies and processes in this area.

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.

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

We have regular contact with NZICA regarding its regulatory functions. Where required, we have early communication about our expectations, rather than waiting until the end of a review period.

If we identify any weaknesses or areas needing improvement, we will discuss these with NZICA in a timely manner. This should give 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 voluntarily without the need for a formal process.