

December 2020

# Accredited body report

New Zealand Institute of  
Chartered Accountants  
1 July 2019 to 30 June 2020

# Purpose of this report

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This report contains the findings of our monitoring assessment of the New Zealand Institute of Chartered Accountants (NZICA) for the period 1 July 2019 to 30 June 2020.

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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AUCKLAND OFFICE | Level 5, Ernst & Young Building | 2 Takutai Square, Britomart | PO Box 106 672 | Auckland 1143  
WELLINGTON OFFICE | Level 2 | 1 Grey Street | PO Box 1179 | Wellington 6140

# Contents

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<b>Purpose of this report</b>	<b>2</b>
<b>NZICA and its obligations</b>	<b>4</b>
<b>Our findings and observations</b>	<b>5</b>
Licensing domestic auditors and registering domestic audit firms	5
Monitoring the registered population	5
Promoting and monitoring competence	6
Taking action against misconduct	6
<b>Future focus</b>	<b>7</b>

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# NZICA and its obligations

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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 (CA 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.

CA ANZ has over 128,000 members globally, the majority based in Australasia. CA ANZ has a number of offices across New Zealand.

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<sup>1</sup>. 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 September 2020.

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

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<sup>1</sup> 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

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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 considered 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 10 new auditors and renewed approximately 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

Each of the licences and renewals we reviewed was 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 continued its risk assessments and performed a number of monitoring procedures. Monitoring procedures included reviews of financial statements and a review of non-audit services disclosed in financial statements of FMC reporting entities. These reviews resulted in a number of enquiries. The FMA concluded that the monitoring work of NZICA is effective. To support NZICA with its ongoing monitoring, we share our 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 appropriately accessible. We further 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 knowledge of auditing and accounting standards.

## Taking action against misconduct

During the period, we reviewed NZICA's systems, policies and procedures to meet the requirements of the Act for taking action against misconduct. NZICA is required to provide regular reporting to us on the progress of investigations into licensed auditors.

We considered whether NZICA complied with the prescribed minimum standards for accredited bodies. As part of our assessment we also looked at the effectiveness of these systems, policies and procedures by reviewing a number of referrals made by the FMA that have been completed or are in progress.

### Conclusion

We consider there is scope for NZICA to further streamline its processes and reduce the number of committees and groups involved in cases where the FMA has a genuine interest and has made a referral to NZICA. There also needs to be clearer delineation, and communication, of when an investigation ends and formal disciplinary action is to be taken, or disciplinary proceedings to begin.

We require clearer and timelier communication to us about investigations the FMA has genuine interest in, to allow us to determine if we wish to exercise any of our rights under the Act concerning any investigation.

In August 2020, we met with NZICA to discuss a self-assessment they conducted on how the effectiveness of the overall investigation and disciplinary process could be improved. We are currently working on a response to the self-assessment and expect to complete this work before 30 June 2021.

## Future focus

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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. When required, we communicate early 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.