

Accredited Body Report – New Zealand Institute of Chartered Accountants

For the year ended 30 June 2013



Financial Markets Authority

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Context of this report

The Auditor Regulation Act (**the Act**)¹ requires the Financial Markets Authority (**FMA**) to assess to what extent the New Zealand Institute of Chartered Accountants (**NZICA**), as an accredited body, under the Act:

- has adequate and effective audit regulatory systems
- complies with its obligations under:
 - the Act
 - the Auditor Regulation Act (Prescribed Minimum Standards for Accredited Bodies) Notice 2012² ('the Notice')
 - its conditions of accreditation.

NZICA's obligations under the Act require it to have adequate and effective systems, policies and procedures in place to perform its regulatory functions³. These functions include:

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

This report contains the outcome of FMA's assessment and covers the period 1 July 2012 to 30 June 2013 (the review period).

FMA's approach to regulation

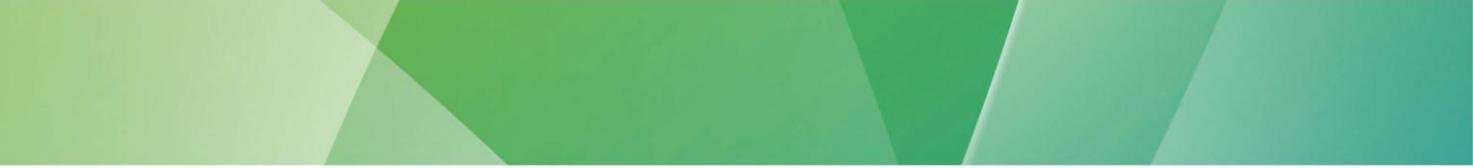
FMA's principal objective is to promote the development of fair, efficient and transparent financial markets. Our approach is to work with financial market participants in an open and educative way, to achieve best standards of compliance. We seek to be clear about FMA's expectations, while providing the market scope to develop the way it meets these expectations.

FMA monitors market participants' compliance with the obligations imposed upon them. Our monitoring activities are designed to facilitate voluntary compliance by market participants, and are one of the ways through which we communicate our expectations and work to raise standards. Our expectations of regulated participants increase over time, as regulatory regimes are embedded.

¹ See section 55 of the Auditor Regulation Act 2011

² See Prescribed Minimum Standards for Accredited Bodies on FMA's website (<http://www.fma.govt.nz/compliance/licensing-and-registration/licensing-forms-and-resources/auditors/>)

³ 'regulatory functions' is defined in section 6 of the Act



Summary

Our conclusion

During the review period, NZICA's audit regulatory systems were found to be adequate and effective.

NZICA is deemed by the Act to be an accredited body from 1 July 2012. During this review period FMA performed a 'shadow accreditation' process of NZICA in order to determine whether NZICA met the standard required of other accredited bodies seeking accreditation under the Act. NZICA and FMA agreed that such a process would be useful in advance of the first accredited body report because NZICA had been deemed accredited pursuant to section 50 of the Act. Accordingly, FMA had not formally reviewed NZICA's systems, policies and processes. The 'shadow accreditation' included a full review of NZICA's compliance with the requirements to have systems, policies and procedures, which are adequate to perform its regulatory functions and other requirements prescribed by the Act and the Notice. Following that review, FMA made a number of recommendations to NZICA, which NZICA addressed. Given that 'shadow accreditation' and the recommendations made within it, this report does not contain recommendations and actions required by NZICA. It is our expectation that future accredited body reports on NZICA may contain such recommendations and actions.

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

1 NZICA and its obligations

1.1 NZICA

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

NZICA was deemed accredited⁴, however during this review period, FMA undertook a 'shadow accreditation' of NZICA, assessing it against accreditation standards and requirements, as though it were not deemed to be accredited.

1.2 NZICA's obligations

As an accredited body, NZICA is responsible for maintaining adequate and effective systems and processes for performing the necessary regulatory functions. An overview of NZICA's obligations as an accredited body under the Act and the Notice are set out in Appendix 1 of this report.

1.3 Obligations on NZICA to self-assess

The Act requires NZICA to produce an annual self-assessment report assessing its own performance against its obligations⁵. In particular, the report must contain:

- information relating to the accredited body's performance in carrying out regulatory functions for the purposes of the Act
- information relating to any material changes to the accredited body's audit regulatory systems that it has implemented, is in the process of implementing, or is considering implementing (including stating what it has done in response to any direction issued under section 56 of the Act)
- any other prescribed information.

1.4 NZICA Assessment Report

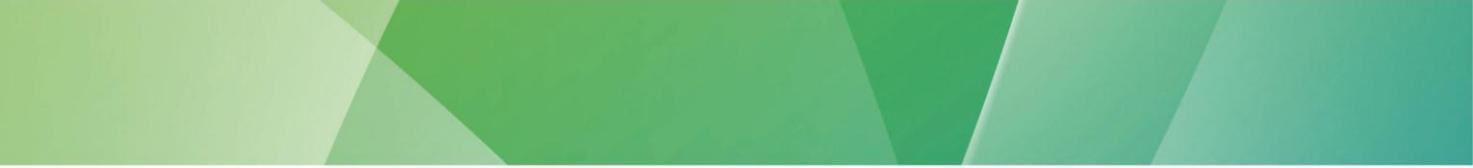
NZICA provided FMA with its annual report for the period 1 July 2012 to 30 June 2013 on 30 September 2013, in accordance with the requirements of the Act. The report noted that:

- it had been produced to satisfy the requirements of the Act
- it had been prepared against the requirements of section 51 of the Act.

NZICA's assessment was that it had complied with all of its obligations during the review period. NZICA concluded that it had performed all tasks necessary to ensure that its regulatory systems are adequate and effective.

⁴ See section 50 of the Auditor Regulation Act 2011

⁵ See section 51 of the Auditor Regulation Act 2011



The annual report provided information regarding NZICA's audit and regulatory systems, and provides an overview of the systems, policies and procedures that NZICA has in place, work performed and the outcomes of that work during the review period. This report also contains NZICA's self-assessment. The report was structured as follows:

- membership, licensing and registration
 - licences and registrations issued and cancelled
- monitoring and general oversight:
 - compliance with NZICA's code of ethics
 - compliance with conditions of licence and registration
 - compliance with minimum standards
 - compliance with auditing and assurance standards in the performance of issuer audits
 - 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
 - overview of current or emerging issues in the audit profession based on environmental scanning
 - developing and implementing strategies to address, or mitigate, issues of non-compliance or other matters of concern identified through complaints and monitoring
- education and training
 - overview of how NZICA promotes, monitors and reviews its licensed auditors' ongoing competence
 - promoting the ongoing competence of licensed auditors
 - review of licensed auditors on their ongoing competence requirements
 - overview of licensed auditors that haven't complied with the requirements and actions that have been taken against non-compliance
- complaints, enquiries, investigations and discipline
 - overview of the complaints process and number of complaints
 - outcome of investigations
- NZICA's Self-Assessment
- changes to NZICA's governance and organisational structure.

2 FMA's Assessment

2.1 Obligation on FMA to assess accredited bodies

The Act requires FMA to prepare a report on the extent to which the audit regulatory systems of each accredited body are adequate and effective, no later than six months after the start of each financial year.

2.2 Approach to FMA's assessment

FMA's overall mandate is to strengthen public confidence in New Zealand's financial markets and to promote innovation and growth of New Zealand's capital base, through effective regulation. In respect of the Act, FMA's purpose is to promote quality, expertise and integrity in the professional status of auditors, and to promote the recognition of the professional status of New Zealand auditors in overseas jurisdictions. NZICA is one of two accredited bodies that monitor the compliance of New Zealand's licensed auditors and registered audit firms.

The assessment process provides FMA with the opportunity to report on the adequacy and effectiveness of the audit regulatory systems NZICA has in place during a particular review period, and to identify issues that in our view, may need to be addressed to ensure NZICA's continued compliance.

FMA engaged with NZICA throughout the review period, with the intention of raising issues as they occurred rather than after the end of the review period. Our plan for ongoing oversight of NZICA as an accredited body is set out in FMA's Auditor Regulation and Oversight Plan 2013-2016⁶.

Methodology

We reviewed the following as part of the shadow accreditation process of NZICA:

- systems, policies and procedures in place for auditor oversight
- NZICA board papers and minutes relevant to auditor oversight responsibilities
- onsite review of files and logs relevant to auditor oversight.

FMA's ongoing oversight of NZICA involved the following:

- regular meetings to discuss and address issues
- review of NZICA's own assessment of its compliance with its requirements, contained in its annual report to FMA
- review of changes in regulatory systems, policies and processes at the time they were notified to FMA
- onsite reviews of files and logs, followed by feedback to NZICA after each review.

⁶ A copy of this plan is available from FMA's website http://www.fma.govt.nz/assets/Reports/_versions/3334/130601-auditor-regulation-and-oversight-plan-2013-2016.1.pdf

3 General observations

This section sets out FMA's assessment of how NZICA has met its requirements as an accredited body. Our observations and conclusions on the adequacy and effectiveness of the audit regulatory functions have been summarised in the following four areas:

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

Each of the observations contains a high level explanation of how FMA assessed the requirements, followed by the observations and conclusions reached on each of the regulatory functions.

3.1 Licensing of domestic auditors and registering domestic audit firms

FMA's assessment of this requirement

FMA reviewed the systems, policies and processes for assessing and approving:

- academic qualifications
- memberships and conduct rules
- licensed auditors and registered audit firms

In assessing an accredited body's systems, policies and procedures relating to the processing of applications for licensing auditors and registering audit firms, FMA considered whether these systems, policies and procedures are designed to ensure that NZICA meets the prescribed minimum standards for accredited bodies in respect of licensing and registering of auditors and audit firms. FMA also reviewed whether applications are processed by the accredited body in accordance with these systems, policies and procedures.

Conclusion

We concluded that NZICA has the appropriate systems, policies and procedures in place to meet the above requirements. During our monitoring we assessed that the systems, policies and procedures in place were followed when NZICA was assessing, issuing licenses and granting registrations.

3.2 Monitoring its registered population

FMA's assessment of this requirement

We reviewed the systems, policies and procedures that accredited bodies have in place for monitoring licensed auditors and registered audit firms, and assessed the adequacy and effectiveness of that work, to ensure that it addressed the specific impacts, outcomes and outputs of our current plan for oversight and regulation of auditors.

FMA also assessed how an accredited body develops and implements strategies to address or mitigate issues of non-compliance and other matters of concern identified through complaints and monitoring.

Conclusion

FMA concluded that NZICA has the appropriate systems, policies and procedures in place to monitor its licensed auditors and registered audit firms, and to mitigate issues of non-compliance identified through its complaints process.

During our monitoring we found that NZICA followed its systems, policies and procedures.

3.3 Promoting and monitoring competence

FMA's assessment of this requirement

FMA considers whether:

- (a) courses, seminars, conferences and other structured training provided by an accredited body (which is external to a particular audit firm) are, and are seen by the industry to be, of a high quality, well-tailored to the needs of the industry and seen by the industry to be reasonably priced for the nature of the course
- (b) these are offered at appropriate locations around New Zealand, particularly where physical attendance is required or preferable. FMA expects a reasonable number of courses to be run in New Zealand. This does not however, prevent an accredited body from inviting New Zealand based licensed auditors to attend courses run overseas, or from offering courses through remote access technology, such as video conferences or webinars
- (c) courses are also open to auditors licensed by other accredited bodies and overseas licensed auditors, the broader audit profession, and (where appropriate given the nature of the course) non-auditors interested in the subject matter.

FMA will also assess the accredited body's policies for taking action against licensed auditors who fail to meet the ongoing competence requirement.

Conclusion

FMA found that NZICA met the requirements for promoting and monitoring competence. NZICA confirmed to FMA that all licensed auditors met the ongoing competence requirements, during the review period. As a result, FMA was unable to assess how NZICA responds in circumstances where a licensed auditor fails to meet the ongoing competence requirements.

3.4 Taking action against misconduct

FMA's assessment of this requirement

FMA reviews whether or not the accredited body has the appropriate systems, policies and procedures in place to meet the requirements for taking action against misconduct, as set out in the Act. We also assess if the prescribed minimum standards for accredited bodies are being met and whether the accredited body continues to comply with the standards.

FMA also reviews a sample of complaints and disciplinary procedures against licensed auditors or registered audit firms, to ensure compliance with the system, policies and procedures of the accredited body, and the required minimum standards.

Conclusion

We found that NZICA has the appropriate systems, policies and procedures in place to discipline its members, and that the systems, policies and procedures meet the requirements and that NZICA followed those.

NZICA identified one licensed auditor that had provided incorrect information during the transitional licence process. This matter was referred to the disciplinary tribunal and resulted in the cancellation of the licence.

4 Future focus

FMA is satisfied with NZICA's engagement as an accredited body. We will continue to take a proactive approach to the assessment of the accredited body's systems and processes.

On 1 November, NZICA announced that members of the Institute of Chartered Accountants Australia (ICAA) and NZICA had voted in favour of the proposal to amalgamate and create one new institute. Before transition to the new institute is complete the necessary changes to the NZICA Act (1996) and Royal Charter in Australia must be made. FMA will work with NZICA and the new institute to identify the impact of the changes on the accreditation and obligations required under the Act and the Notice.

In addition to other monitoring, FMA will continue to perform monitoring visits to assess the compliance with these systems. We will undertake our monitoring work over the report period where possible, rather than waiting until the end of the review period. This should allow NZICA to adjust and improve its systems and processes during the period if necessary.

The monitoring visits will focus specifically on:

- licensing of domestic auditors and registering of domestic audit firms
 - FMA will review newly issued and renewed licences for compliance with the minimum standards
- monitoring the population registered by NZICA
 - compliance with maintaining a code of ethics by reviewing the outcomes of practice reviews performed by accredited bodies for their members
 - complaint process implemented by the accredited body
- promoting and monitoring competence
 - FMA will review the compliance of licensed auditors with the requirements of NZICA and the prescribed minimum standards for licensed auditors by reviewing a sample of the licensed auditors
- taking action against misconduct
 - FMA will review accredited bodies' processes for responding to complaints and other issues, as noted through the practice reviews and our quality reviews, by reviewing a sample of complaints of compliance with these processes.

FMA will continue to liaise with NZICA on an ongoing basis, in respect to any reports or notifications made by the accredited body, or where appropriate, to share intelligence provided to us.

If we identify any weaknesses or areas for improvement within the accredited body, we expect to discuss these in a timely manner with the accredited body. FMA has the power to issue a direction requiring an accredited body to amend its systems and processes. We would prefer however, that any issues identified be remedied through constructive dialogue between ourselves and the accredited body, and any appropriate remedial action be taken 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

Under section 6 of the Act an accredited body is responsible for maintaining adequate and effective systems and processes for regulatory functions:

- (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

Under section 6 of the Act an accredited body is responsible for maintaining adequate and effective systems and processes for regulatory functions:

- (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

Under section 6 of the Act an accredited body is responsible for maintaining adequate and effective systems and processes for regulatory functions:

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

Taking action against misconduct

Under section 6 of the Act an accredited body is responsible for maintaining adequate and effective systems and processes for regulatory functions:

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

Section 3 of the Notice requires accredited bodies:

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



