

December 2015

Accredited Body Report

NZ Institute of Chartered Accountants

1 July 2014 - 30 June 2015

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Purpose of this report

One of the FMA's seven strategic priorities is to ensure that frontline regulators are effective in their role. Accredited bodies, as frontline regulators, 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 that businesses and professionals have in place, but also their culture, conduct and activities, and how these reflect the best interests of their customers.

The *Auditor Regulation Act 2011* (the Act) requires the FMA to monitor the audit regulatory systems of accredited bodies to ensure these systems and processes are adequate and effective. This report contains the outcome of our monitoring assessment of New Zealand Institute of Chartered Accountants (NZICA) for the period 1 July 2014 to 30 June 2015.

NZICA and its obligations

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). Following amalgamation, NZICA continues to regulate Chartered Accountants ANZ members in New Zealand under the *NZICA Act 1996* and the terms of the amalgamation agreement. For the audit oversight regime, NZICA continues to be the accredited body.

As an accredited body, NZICA's obligations under the Act require it to have adequate and effective systems, policies and procedures in place to perform regulatory functions¹. These functions include:

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

The Act requires NZICA to provide an annual report to the FMA assessing its own performance against its obligations. NZICA provided this year's report on 24 September 2014. NZICA's self-assessment was 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 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. Each observation provides an explanation of how we assessed the requirements and the conclusions we reached.

Licensing of domestic auditors and registering domestic audit firms

When assessing NZICA's systems, policies and procedures for processing applications to license auditors and register audit firms, we looked at whether they were designed to ensure NZICA met the prescribed minimum standards for accredited bodies. We also considered whether the applications were processed according to these systems, policies and procedures. During the year, NZICA licensed 10 auditors. 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

We concluded that NZICA had the appropriate systems, policies and procedures in place to assess auditor licences and firm registrations. When reviewing a sample of the issued licenses, we found that these systems, policies and procedures were followed appropriately.

Monitoring its registered population

We reviewed the systems, policies and procedures that NZICA has in place for monitoring licensed auditors and registered audit firms. We assessed the adequacy and effectiveness of that work to ensure it addressed the specific impacts, 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

We concluded that NZICA had 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. However, we provided NZICA with some further recommendations to enhance its monitoring procedures for licensed auditors who required significant improvements.

Promoting and monitoring competence

We considered whether courses, seminars, conferences, and other structured initiatives and training provided by NZICA to promote auditor competence were of high quality and seen by the industry as valuable. We also considered whether these were well-tailored to the needs of the industry, reasonably priced and held at appropriate locations around the country. We assessed NZICA's policies for taking action against licensed auditors who fail to meet the ongoing competence requirement.

Conclusion

We found that NZICA met the requirements for promoting and monitoring competence. We recommended that NZICA formalise the review for continued professional development of licensed auditors by reporting to any defaulting licensed auditors, in writing, the particulars of non-compliance and the possible consequences for the licensed auditor of continuing non-compliance with the prescribed minimum standards.

Taking action against misconduct

We reviewed whether NZICA has the appropriate systems, policies and procedures in place 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 or registered audit firms, to ensure compliance with NZICA's own systems, policies and procedures and the required minimum standards. In previous years we have recommended NZICA improve its processes for dealing with misconduct allegations and communicating this to its licenced members.

Conclusion

We found that NZICA has appropriate systems, policies and procedures in place to discipline its members, and that the systems, policies and procedures meet the requirements. We confirmed that NZICA had followed prior years' recommendations and that these have been communicated to its members.

Future focus

We will continue to monitor NZICA's compliance with the requirements of the Act, the prescribed minimum standards and conditions of its accreditation. We will also continue to perform monitoring visits to assess NZICA's audit regulatory systems and their operational effectiveness. We will undertake our monitoring work over the course of a review period where possible, rather than at the end of a review period. If we identify any weaknesses or areas for improvement we will discuss these in a timely manner with NZICA. This should allow 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 on a voluntary compliance basis without the need for a formal process.