

December 2014

Accredited Body Report – Certified Public Accountants Australia

For the period ended 30 June 2014

This report should be read by:
Accredited bodies
Auditors
Directors
Issuers

About the FMA

The FMA is an independent Crown entity with a mandate to promote and facilitate the development of fair, efficient and transparent financial markets. We work with financial markets participants to raise standards of good conduct, ethics and integrity, and to achieve best standards of practice and compliance.

www.fma.govt.nz

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

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Introduction

Under the *Auditor Regulation Act 2011* (the Act), the Financial Markets Authority (FMA) may grant accreditation to a professional accounting body or another qualified person to carry out certain regulatory functions¹ on behalf of the FMA, such as issuing licences to auditors.

An accredited body must have systems and processes in place for performing regulatory functions, referred to as audit regulatory systems. The Act requires the FMA to monitor the audit regulatory systems of an accredited body and prepare an annual report on the extent to which the audit regulatory systems of the accredited body are adequate and effective.

In order to assess the adequacy and effectiveness of audit regulatory systems, the FMA considers the accredited body's compliance with its obligations under:

- the Act
- the Auditor Regulation Act (Prescribed Minimum Standards for Accredited Bodies) Notice 2012 (the Notice)
- any conditions of accreditation.

This report contains the outcome of our assessment of Certified Public Accountants Australia (CPA Australia) for the period 1 July 2013 to 30 June 2014 (*the Review Period*).

During this period we have been satisfied with CPA Australia's engagement as an accredited body. We found that CPA Australia's audit regulatory systems were adequate. CPA Australia had no licensed auditors or registered audit firms and therefore this assessment is limited to the design and existence, and not the operation, of the regulatory systems.

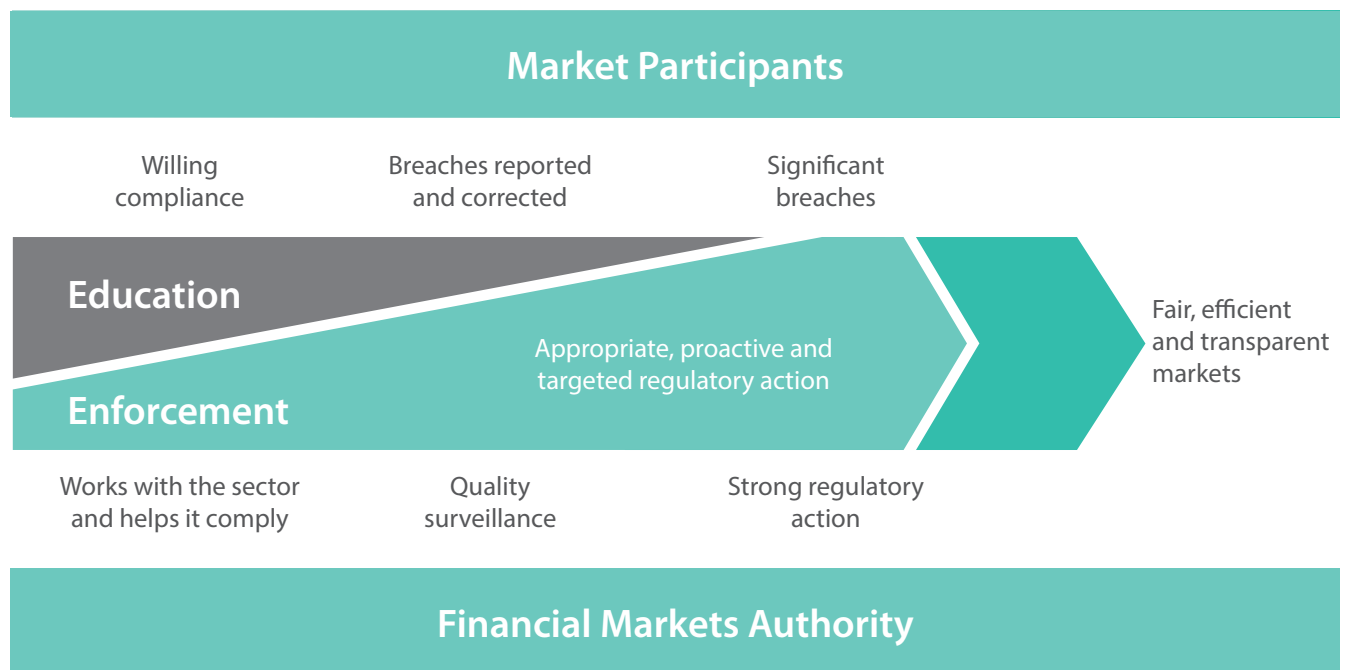
¹ *Regulatory functions that may be performed by accredited bodies are defined in section 6 of the Act*

The FMA's approach to regulation

Our approach to regulation is to work with financial markets participants in an open and educative way, to achieve best standards of compliance. We seek to be clear about our expectations, while providing market participants with scope to develop the way they meet these expectations.

While some areas of the auditor oversight regime are carried out by us directly, other significant areas are delivered through monitoring the effective discharge by accredited bodies of their functions as frontline regulators. We expect accredited bodies to make a significant contribution to the delivery of the desired outcomes of this regime and we will monitor these bodies on their obligations.

Our risk-based regulatory philosophy



We will work with CPA Australia to:

- support the financial markets sector to understand and willingly comply with our expectations
- encourage participants to promptly report and correct regulatory breaches
- identify significant breaches of licensed auditors and registered audit firms and address them promptly
- work to minimise regulatory burden for participants dealing with multiple regulators
- ensure our education, surveillance and enforcement functions work cohesively to support a strong deterrent effect.

CPA Australia and its obligations

CPA Australia is a professional accounting body with a membership of over 150,000 finance, accounting and business professionals in 121 countries. CPA Australia has an office in Auckland but its head office is located in Melbourne, Australia.

CPA Australia was granted accreditation by the FMA under section 48 of the Act on 18 October 2012.

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

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

The Act requires CPA Australia to provide an annual report to the FMA assessing its own performance against its obligations. This report was provided for the Review Period on 11 August 2014 in accordance with the requirements of the Act.

CPA Australia's self-assessment was that it had complied with all of its obligations during the Review Period and had performed all the tasks necessary to ensure its regulatory systems are adequate and effective.

Our findings and observations

CPA Australia did not license any auditor or register any audit firm during the Review Period and had no licensed auditors or registered audit firms prior to the review period. This means there was no basis on which we could monitor the performance of CPA Australia's audit regulatory systems during the Review Period.

Our assessment of CPA Australia's compliance with its obligations for the Review Period is therefore based on our initial assessment from the accreditation process of the implementation and design of CPA Australia's audit regulatory systems. There were no significant changes to CPA Australia's audit regulatory systems during the Review Period and we also considered additional documentation supplied by CPA Australia in order to comply with the conditions of its accreditation.

Looking forward

We will continue to take a proactive approach to the assessment of all accredited bodies' systems and processes. This will include conducting monitoring visits after first licences have been issued, or changes made to systems, policies or procedures.

We will also continue to liaise with CPA Australia on an ongoing basis in regard to reports or notifications made by them as an accredited body, or where appropriate, when they share intelligence with us.

Appendix 1 – Obligations of an accredited body

The obligations of CPA Australia as an accredited body are set out in the Act and the Notice, and include:

Licensing of domestic auditors and registering domestic audit firms

Section 6 of the Act defines *regulatory functions*, for which an accredited body is responsible for maintaining adequate and effective systems and processes:

- (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

Section 6 of the Act defines *regulatory functions*, for which an accredited body is responsible for maintaining adequate and effective systems and processes:

- (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

Section 6 of the Act defines *regulatory functions*, for which an accredited body is responsible for maintaining adequate and effective systems and processes:

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

Taking action against misconduct

Section 6 of the Act defines regulatory functions, for which an accredited body is responsible for maintaining adequate and effective systems and processes:

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

Section 3 of the Notice requires that:

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

Glossary

Accredited Body Report – Certified Public Accountants Australia

Act (as referenced in this report)	<i>Auditor Regulation Act 2011</i>
CPA Australia	Certified Public Accountants Australia
FMA	Financial Markets Authority
Notice (as referenced in this report)	Auditor Regulation Act (Prescribed Minimum Standards for Accredited Bodies) Notice 2012
Review Period	1 July 2013 to 30 June 2014

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TE MANA TATAI HOKOHOKO - NEW ZEALAND