



DECEMBER 2022

Accredited body report – NZICA

Findings from the FMA's review of the adequacy and effectiveness of NZICA's audit regulatory systems for the period 1 July 2021 to 30 June 2022

This copyright work is licensed under the Creative Commons Attribution 3.0 New Zealand licence. You are free to copy, distribute and adapt the work, as long as you attribute the work to the Financial Markets Authority and abide by the licence terms. To view a copy of this licence, visit [creativecommons.org](https://creativecommons.org/licenses/by/3.0/nz/)

Contents

Executive summary	3
About this report	3
About NZICA and its obligations	3
How we approached this review	4
Overall assessment	4
Focus areas	5
Membership, licensing and registration	5
Monitoring and general oversight	5
Promoting and monitoring competence	6
Complaints, enquiries, investigations and discipline	6
Future focus	7

Executive summary

About this report

The Auditor Regulation Act 2011 (the Act) requires the Financial Markets Authority – Te Mana Tātai Hokohoko (FMA) to monitor the audit regulatory systems of accredited bodies and report annually on the extent to which the systems are adequate and effective.

As frontline regulators, accredited bodies play a crucial role in New Zealand's financial markets, with responsibility for overseeing domestic licensed auditors and registered audit firms. One of the FMA's strategic intentions is to promote trust and confidence in capital markets, and this includes monitoring the licensed auditor population and the quality of audits.

This report contains the findings of our monitoring assessment of NZICA for the period 1 July 2021 to 30 June 2022.

About NZICA and its obligations

The New Zealand Institute of Chartered Accountants (NZICA) and the Institute of Chartered Accountants of Australia (ICAA) formally amalgamated on 1 January 2015 to form Chartered Accountants Australia and New Zealand (CAANZ). However, NZICA continues to regulate the accountancy profession for members who remain resident in New Zealand. For the purpose of the audit oversight regime, NZICA is the accredited body, and therefore the subject of the FMA's annual review.

CAANZ has over 130,000 members globally, with the majority based in Australasia. Of those, NZICA had approximately 26,500 members, with 16 registered firms and 134 licensed auditors, as at 30 June 2022. CAANZ has a number of offices across New Zealand.

NZICA was granted accreditation by virtue of section 50 of the Act.

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. In addition, the FMA further prescribed minimum standards for accredited bodies in relation to governance and organisational structures, internal compliance procedures, policies and audit regulatory systems.

In relation to this review, audit regulatory systems¹ include:

- Membership, licensing and registration
- Monitoring and general oversight
- Promoting and monitoring the competence of members
- Complaints, enquiries, investigations and discipline

The Act also requires NZICA to provide to the FMA an annual report assessing its own performance against its obligations.

¹ Requirements of 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.

How we approached this review

We carried out a comprehensive review of NZICA's regulatory systems, employing a risk-based approach and exercising judgement in selecting the level and detail of work performed in each area.

As part of the review process, we assessed information relating to NZICA's regulatory systems and processes. We reviewed policies and procedures, considered the activity during the period, undertook various sample tests and met with various NZICA personnel from the Regulation and Conduct team during an onsite visit in June 2022, obtaining further information at that time. We also reviewed NZICA's annual report and self-assessment, provided to the FMA on 30 September 2022. This, along with other monitoring and engagement in relation to NZICA throughout the year, provided sufficient detail for the FMA to undertake this review.

In its annual report, NZICA concluded that its overall audit regulatory systems were adequate and effective in discharging its responsibilities as an accredited body under the Act during the year, and that it has allocated sufficient resources to ensure its audit regulatory systems are and continue to be adequate and effective.

Overall assessment

We concluded that NZICA's audit regulatory systems relevant to our review were adequate and effective during the period.

In the prior year, we noted that improvements were needed to enhance NZICA's investigative and disciplinary processes. During the review period, NZICA implemented a number of enhancements to its processes and protocols. We met with NZICA in early 2022 to discuss further, and during our onsite visit we reviewed a disciplinary case that had been concluded within the review period. We had no concerns in relation to this case and NZICA's processes and actions. FMA and NZICA will engage further in the upcoming year to finalise protocols between the agencies for future complaints and referrals of a disciplinary nature.

Focus areas

Membership, licensing and registration

During the period, NZICA licensed 4 new auditors, granted 6 renewals, and cancelled 7 auditor licences and 2 audit firm registrations. It was noted that during the review period there were no audit firm registrations or licences where conditions were imposed or lifted, and no licences were suspended or lapsed.

We reviewed changes to NZICA's systems, policies and procedures for processing and dealing with licence and registrations changes, from initial applications to modifications and cancellations, to ensure NZICA meets the prescribed minimum standards for accredited bodies. We also reviewed a sample of the above licensing activity to determine whether the applications and requests were processed and assessed according to these systems, policies and procedures.

Conclusion

In all instances we found the licensing assessments to be reasonable, well documented and processed in accordance with policies and procedures. All sampled licences and renewals were issued in accordance with the prescribed minimum standards, and the cancellations were appropriately managed. We concluded NZICA's membership, licensing and registration systems to be adequate and effective in the review period.

Monitoring and general oversight

NZICA continued monitoring and oversight of its licensed auditors and registered audit firms during the review period, updating its risk assessments and risk register, and performing a number of monitoring procedures including practice reviews, and reviews of financial statements of FMC reporting entities. NZICA undertook enquiries in response to these reviews, as well as any referrals it received, including from the FMA. To further support NZICA's risk assessments and ongoing monitoring, the FMA shares its audit quality review reports and findings following each review cycle of registered audit firms.

We reviewed changes to NZICA's systems, policies and procedures for monitoring domestic licensed auditors and registered audit firms. We reviewed NZICA's risk assessments and risk register, and the outcomes of various reviews and enquiries, to assess the adequacy and effectiveness of monitoring work.

We also considered how NZICA developed and implemented strategies to address or mitigate issues of non-compliance and concerns identified through its own monitoring, from complaints processes and from FMA referrals. In all instances we considered whether monitoring and outcomes addressed focus areas and desired outcomes of the FMA's current plan for oversight and regulation of auditors.

Conclusion

We observed enhancements to NZICA's monitoring and general oversight procedures in response to our previous recommendations, and made recommendations to NZICA in relation to its risk assessments and monitoring of auditors determined to be high risk. We concluded NZICA's monitoring and general oversight systems to be adequate and effective in the review period.

Promoting and monitoring competence of members

As part of its regulatory functions, NZICA is responsible for promoting the ongoing competence of licensed auditors.

We assessed NZICA's policies in relation to continuing professional development (CPD) and International Education Standard 8 (IES8) requirements of members, as well as its monitoring and disciplinary protocols related to licensed auditors meeting their ongoing competence requirements. As part of NZICA's annual confirmation process, licensed auditors must provide NZICA with CPD records as well as individual auditors' IES8 learning plans. NZICA reviews a sample of these confirmations.

We reviewed a sample of the licensed auditors reviewed by NZICA in the review period, noting NZICA implemented a number of improvements in the review period in response to our prior recommendations.

We also considered NZICA's educational programme, which includes online training such as webinars, events, workshops and podcasts and collaborations with CAANZ and other learning providers. We reviewed a sample of these to determine the quality of courses promoting auditor competence and whether they respond to evolving issues and address the needs of the industry. NZICA takes a serious view of training, ensuring there is a suite of courses available to members covering a wide range of topics and targeting different competency levels

Conclusion

We found training provided to the licensed population is sufficient to maintain and extend knowledge of auditing and accounting standards. Regarding CPD and IES8 monitoring, we made recommendations to NZICA to enhance its confirmation process and follow-up procedures. Overall, we concluded NZICA's systems to promote and monitor the competence of licensed auditors to be adequate and effective during the review period.

Complaints, enquiries, investigations and discipline

We reviewed changes to NZICA's systems, policies and procedures in relation to complaints, enquiries, investigations and disciplinary matters in responding to, and taking action against, misconduct. We also obtained the status of all enquiries and investigations in response to FMA referrals or complaints, reporting and communications back to the FMA on such, and complaints made to NZICA other than by FMA, in relation to licensed auditors or firms. We undertook several enquiries in relation to this activity and also reviewed a disciplinary case of interest that was concluded within the review period.

Conclusion

In response to prior recommendations, NZICA implemented a number of enhancements to its processes and protocols. The FMA and NZICA will engage further in the upcoming year to finalise protocols for future complaints and referrals of a disciplinary nature. Overall, we concluded NZICA's systems relating to complaints, enquiries, investigations and discipline to be adequate and effective during the review period.

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.

The FMA has regular contact with NZICA regarding its regulatory functions, through our Audit and Market Infrastructure teams. When required, we communicate early about our expectations, rather than waiting until the end of a review period. As noted in this report, we will be engaging further in the upcoming year to finalise protocols for complaints and referrals of a disciplinary nature.

We also plan to engage more widely with key stakeholders in relation to our reviews of NZICA and the content and usefulness of these reports.

