



DECEMBER 2022

# Accredited body report – CPA Australia

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

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# Executive summary

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## 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 CPA Australia for the period 1 July 2021 to 30 June 2022.

## About CPA Australia and its obligations

CPA Australia has over 170,000 members in more than 100 countries, supported by 19 offices globally, including in Auckland and its head office in Melbourne. In New Zealand, CPA Australia has issued one licence to audit FMC reporting entities and one firm registration.

CPA Australia was granted accreditation by the FMA on 18 October 2012.

As an accredited body, CPA Australia 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 systems<sup>1</sup> 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 CPA Australia to provide to the FMA an annual report assessing its own performance against its obligations.

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<sup>1</sup> 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 CPA Australia'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 CPA Australia's regulatory systems and processes. We reviewed policies and procedures, considered the activity during the period, undertook various sample tests and met with various CPA Australia personnel during an onsite visit in July 2022, obtaining further information at that time. We also reviewed CPA Australia's annual report and self-assessment, provided to the FMA on 20 September 2022. This, along with other monitoring and engagement in relation to CPA Australia throughout the year, provided sufficient detail for the FMA to undertake this review.

In its annual report, CPA Australia concluded that its audit regulatory systems in operation during the reporting period were adequate and effective, and that its current resource allocation to the audit regulatory system is sufficient to ensure its ongoing operating adequacy and effectiveness.

## Overall assessment

CPA Australia's audit regulatory systems relevant to our review were deemed to be adequately designed. While we do not have specific concerns relating to compliance, further improvements are needed to enhance CPA Australia's monitoring and oversight processes in order to ensure they are fully effective. As no complaints, investigation or discipline activity has taken place we were unable to test effectiveness of systems in these areas.

We acknowledge the small scale of CPA Australia's current FMC licensed auditor population, and that CPA Australia has been making continual improvements as it implements its new 'CPA Australia Best Practice Program'.

## Focus areas

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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 function, we explain how we assessed this area and reached our conclusions.

### Membership, licensing and registration

We note CPA Australia has one FMC licensed auditor and one registered firm at present. During the review period, CPA Australia did not undertake any licence or registration activity.

We considered whether CPA Australia's systems, policies and procedures for processing applications to license and register domestic auditors and audit firms are designed to ensure CPA Australia meets the prescribed minimum standards for accredited bodies. In the prior year, we recommended CPA Australia enhance its renewal process, and protocols were adapted to incorporate these changes. We will be interested to see these operate in practice when further licensing activity takes place.

#### Conclusion

We concluded CPA Australia's membership, licensing and registration systems to be adequate. We tested these in a previous period where activity arose and confirmed them to be effective. As there has been no further licensing and registration activity, we were unable to further test the effectiveness of these systems and procedures.

### Monitoring and general oversight

During the review period, CPA Australia fully implemented its new 'CPA Australia Best Practice Program' ('the Program').

We reviewed changes to CPA Australia's systems, policies and procedures for monitoring domestic licensed auditors and registered audit firms. We assessed the reviews and enquiries undertaken by CPA Australia to assess the adequacy and effectiveness of its monitoring work and its risk assessments.

We also considered if CPA Australia's monitoring and the outcomes of this generally addressed focus areas and desired outcomes from the FMA's current plan for oversight and regulation of auditors. To support CPA Australia with ongoing monitoring, we share our audit quality review reports following each review cycle of CPA Australia's registered audit firm.

CPA Australia made several enhancements to its regulatory risk and compliance processes, including embedding of root-cause analysis. As part of the Program, CPA Australia also undertakes to support its members with producing a Support Plan tailored to each member following their reviews.

#### Conclusion

CPA Australia has systems, policies and procedures in place to monitor its licensed auditor, and implemented a new 'CPA Australia Best Practice Program' to undertake reviews of its members. In testing the effectiveness of the Program, we made a number of recommendations to CPA Australia to further

enhance its processes. We made further recommendations in relation to general oversight and reporting to the FMA.

Given the nature of the recommendations and the scale of CPA Australia's current FMC licensed auditor population, CPA Australia's audit regulatory systems relevant to our review were deemed to be adequate, but improvements are required to ensure they are fully effective.

## Promoting and monitoring competence

We assessed CPA Australia'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 for ensuring licensed auditors meet their ongoing competence requirements.

CPA Australia appointed a specialist in risk management and CPD, who undertook an extensive review of CPD and IES compliance procedures during the period, and the CPD and IES8 compliance reviews recommenced with the implementation of the new 'CPA Australia Best Practice Program'. We provided recommendations to CPA Australia on enhancements to prioritise that will further improve the compliance assessments and ongoing monitoring and follow-up procedures.

We also considered CPA Australia's educational programme, which includes online training such as webinars, events, workshops and podcasts. We reviewed a sample of these, to determine the quality of courses to promote auditor competence and whether they respond to the needs of the industry and evolving issues. There is a good level of training offered, with interactive online courses involving a range of teaching methods and approaches, including case studies, videos, knowledge checks and scenarios to ensure practical application in the workplace. The online courses all have an assessment at the end for completion and knowledge attainment purposes. We made one recommendation to CPA Australia to further enhance training offerings.

### 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 some recommendations to CPA Australia to enhance its monitoring and follow-up procedures. Overall, we concluded CPA Australia'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

During the period, we reviewed changes to CPA Australia's systems, policies and procedures in relation to complaints, enquiries, investigations and disciplinary matters in responding to, and taking action against, misconduct.

We noted there were no complaints during the review period, and currently no investigations or disciplinary action in progress with regards to the FMC licensed population.

### Conclusion

CPA Australia has appropriate systems, policies and procedures to discipline its members, and the systems, policies and procedures met the requirements. As there were no complaints, we were unable to test the effectiveness of these systems and procedures.

## Future focus

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We will continue to monitor CPA Australia's compliance with the requirements of the Act, the prescribed minimum standards, and the conditions of its accreditation.

We will continue to engage with CPA Australia on its responses to the recommendations we have made as part of this review, as well as its ongoing monitoring activity. 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.

We also plan to engage more widely with key stakeholders in relation to our reviews of CPA Australia as an accredited body and the content of these reports.



