

30 June 2025

Gabriela Figueiredo Dias
Chair
International Ethics Standards Board for Accountants
Via email

Dear Gabriela,

IESBA Collective Investment Vehicles and Pension Funds – Auditor Independence

Thank you for the opportunity to comment on the IESBA Collective Investment Vehicles and Pension Funds – Auditor Independence Consultation Paper. We submit the feedback from the New Zealand External Reporting Board (XRB).


The XRB is a Crown Entity responsible for developing and issuing climate, accounting, auditing and assurance standards (including professional and ethical standards) in New Zealand. The XRB enables high-quality, credible and integrated reporting by providing robust frameworks and standards that are internationally credible, while being relevant to Aotearoa, New Zealand. This ensures reporting and assurance in New Zealand promotes trust, confidence, transparency and accountability.

The XRB supports the IESBA initiative to seek feedback about whether revisions are required to the extant Code in respect of independence of investment schemes and pension funds. We encourage the IESBA to continue their principles-based approach and to consider non-authoritative guidance to clarify extant principles. In our responses we have highlighted some unique New Zealand jurisdictional considerations relevant to this consultation paper.

We note that investment schemes and pension funds in New Zealand are highly regulated. The XRB has included managed investment schemes within the definition of a public interest entity. To date we have not been informed of any issues with regard to auditor independence for these schemes.

Should you have any queries concerning our submission please contact either myself at the address details provided below or Karen Tipper (karen.tipper@xrb.govt.nz).

Yours sincerely,

A handwritten signature in black ink, appearing to read 'M J Russ'.

Marje Russ

Chair - NZAuASB

Email: MRuss@tonkintaylor.co.nz

Submission of the New Zealand External Reporting Board

IESBA Collective Investment Vehicles and Pension Funds – Auditor Independence

Question 1

Does the Code’s definition of related entity capture all relevant parties that need to be included in the auditor’s independence assessment when auditing CIVs/pension funds?

Please provide reasons for your response.

No, we do not believe that the current definition of related entity captures all relevant parties given the limited number of personnel usually employed by investment schemes and the functions that are outsourced to other parties. An open question exists as to whether there is any need for all these parties, particularly the potentially unique supervisor and custodian roles relevant to New Zealand described below, to be included within the independence considerations.

Collective investment schemes are known in New Zealand as managed investment schemes (MIS). Our response is specific to the unique structures and requirements for MIS that are available to the general public in New Zealand.

In New Zealand, the Financial Markets Conducts Act 2013 (FMC Act) includes the requirements for MIS to have certain roles with specified responsibilities as detailed below. The KiwiSaver Act 2006 contain additional requirements on KiwiSaver schemes (a type of MIS). MIS are regulated by the Financial Markets Authority.

The definition of audit client in Professional Ethical Standard 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) (PES 1)¹ requires all clients that are FMC reporting entities considered to have a higher level of public accountability (FMC HLPAs) to include their related entities in the consideration of independence. This includes the MIS and the licensed managers of these schemes (in respect of the financial statements of the MIS they manage).

The MIS and MIS manager (in respect of the financial statements of the MIS they manage) are also included in the New Zealand Public Interest Entity (PIE) definition and are subject to the PIE independence requirements under PES 1.

The FMC Act requires all MIS to have the following roles with the following responsibilities:

- The MIS Manager (S142):
 - is responsible for the management of the MIS including offering and issuing managed investment products
 - does not hold or look after investors’ money or property
 - is responsible for the administrative functions of the MIS
 - is an FMC HLPAs and is therefore treated as a PIE and auditors are required to include all related entities in the assessment of independence under PES 1.
- The Supervisor or Trustee (S152):

¹ PES 1 is adopted in New Zealand and equivalent to the IESBA code as applicable to assurance practitioners.

- is an independent party responsible for ensuring the MIS Manager complies with the scheme trust deed
- or other independent person is required to be the custodian under Legislation (S156 of the FMC Act)
- acts on behalf of members (like Directors do for shareholders).
- Custodian (this could be the same entity as the supervisor):
 - is an entity appointed to hold investors property of a registered MIS “on trust” on behalf of members
 - has the legal responsibility for holding investors securities
 - is responsible for keeping MIS records and reporting on MIS property.

Depending on the legal form and structure of the MIS, some of these parties may not necessarily be seen as a related entity in the current definition in the Code and may therefore not be considered by the auditor in their assessment of independence. Some of these roles including the supervisor and custodian are fiduciary in nature. The auditor’s consideration of who the related entities are may also differ when the MIS is established as a group of companies versus a limited partnership.

The supervisor and custodian roles, as described above, may not fall within the current definition of a related entity because the definition is based on control, direct financial interest and significant influence and the supervisor may not have control. The supervisor’s role is to act on behalf of investors and members of the scheme.

However, based on our current New Zealand environment, we have not heard concerns that the supervisor or custodian roles need to fall within the definition of a related entity or that independence issues arise based on these roles.

Question 2

Questions 2 and 3 pertain to audit of a CIV/pension fund where a Connected Party to the Scheme meets the criteria set out in paragraph 35 of the consultation paper, i.e., the Connected Party is:

- a) Responsible for its decision making and operations;**
- b) Able to substantially affect its financial performance; or**
- c) In a position to exert significant influence over the preparation of its accounting records or financial statements.**

Do you believe the criteria set out above are appropriate and sufficient to capture Connected Parties that should be considered in relation to the assessment of auditor independence with respect to the audit of a CIV/pension fund?

Please provide reasons for your response.

We support encouraging auditors to consider connected parties. While clarification of who connected parties are could aid consistent application of the principles of the Code, we have a concern that these criteria may be too broad, given our unique New Zealand structures.

We agree with (a) if a connected entity is responsible for decision making and operations then it should be included in the assessment of independence. In New Zealand this would be the MIS Manager. The MIS and MIS manager (in respect of the financial statements of the MIS they manage)

are included in the New Zealand Public Interest Entity (PIE) definition and are subject to the PIE independence requirements under PES 1.

We agree with (b) that a party that is able to substantially affect the financial performance of an entity should be included in the assessment of independence. We have an open question as to whether this definition may capture the supervisor role, that may be unique to New Zealand, that we describe above and whether it is intended to do this, as this role is primarily fiduciary in nature. We encourage the IESBA to consider additional guidance in this area to clarify what is meant by substantially affect the financial performance so that the relevant parties are identified and that is not applied to more parties than intended.

We agree with the intent of (c) but question whether the wording may be too broad and may extend to or capture service organisations that may be used to carry out functions for the investment schemes including preparing financial statements or maintaining accounting records on behalf of MIS. These organisations are being used for their GAAP knowledge rather than making decisions on behalf of the MIS. These may be considered as service organisations under ISA (NZ) 402² or ISAE (NZ) 3402³.

We encourage the IESBA to consider further refinement and consultation to ensure that only intended parties meet the definition of connected parties.

Question 3

Where there are such Connected Parties, do you believe that the application of the conceptual framework in Section 120 of the Code is sufficiently clear as to how to identify, evaluate and address threats to independence resulting from interests, relationships, or circumstances between the auditor of the CIV/pension fund and the Connected Parties?

If not, do you believe the application of the conceptual framework in the Code as applicable to Connected Parties associated with Investment Schemes warrants additional clarification?

Please provide reasons for your response.

We believe that the conceptual framework is appropriate and sufficiently clear as to how to identify, evaluate and address threats to independence. We do not believe that any additional requirements are necessary.

In the absence of the definition of connected parties we question whether the auditor would include all connected entities in their assessment of independence. There is a risk that the auditor may not think to apply the conceptual framework to all connected parties and therefore whether parties would be consistently identified without further clarity being added to the Code or guidance material being provided.

Question 4

² International Standard on Auditing (New Zealand) 402, Audit Considerations Relating to an Entity Using a Service Organisation

³ International Standard on Assurance Engagements (New Zealand) 3402, Assurance Reports on Controls at a Service Organisation

Do you believe that the conceptual framework in Section 120 of the Code is consistently applied in practice with respect to the assessment of auditor independence in relation to Connected Parties when auditing a CIV/pension fund?

Please provide reasons for your response.

Section 120 and the fundamental principles that should be applied when evaluating potential threats is clear. Based on our understanding, in New Zealand, the fundamental principles are being consistently applied. Our understanding is that the New Zealand specific custodian and supervisor roles (described in our answer to question 1 above) are not being included in the assessment of independence. There remains an open question as to whether they need to be.

The MIS and MIS manager (in respect of the financial statements of the MIS they manage) are included in the New Zealand Public Interest Entity (PIE) definition and are subject to the highest independence requirements under PES 1. We have not heard of any independence issues in New Zealand.

Question 5

Are there certain interests, relationships, or circumstances between the auditor of a CIV/pension fund and its Connected Parties that should be addressed? Please provide reasons for your response.

We have heard that threats to auditor independence are most likely to arise from the provision of non-assurance services to a Connected Party. In evaluating the potential threats, the reasonable and informed third party test must be applied, particularly to the evaluation of:

- the nature of the entity – MIS manager, custodian, supervisor, professional advisor
- the nature of the services provided - routine and mechanical
- the narrowly defined extent of control and oversight by the MIS manager and those charged with governance
- whether there is necessary engagement and the extent of that engagement with the connected party by the auditor.

Question 6 Does your jurisdiction have requirements or guidance specific to audits of CIVs/pension funds from an auditor independence perspective? If yes, are those requirements included in audit-specific or CIV-specific regulation? Please provide details

Yes

MIS, available to the general public, and their licensed MIS managers (in respect of the financial statements of the MIS they manage) are included in the New Zealand definition of a public interest entity and subject to the PIE independence considerations. This is broader than the requirements in the extant IESBA Code.

We also note that this is a highly regulated area and there are specific requirements in New Zealand legislation for what is required to be audited for MIS and KiwiSaver schemes. The FMC Act defines related parties or scheme connected person and the requirements for related party transactions.