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Dear Marje

Thank you for the opportunity to provide feedback on the consultation over the proposed IESBA changes to the Code.

Our response has been framed with reference to, and consideration of, the wider fundamental principles defined by the Code of Ethics and professional standards, and expectations that, in our view, are fundamental to the achievement of the objectives and the maintenance of trust and confidence of users in audit and assurance reports.

As an overarching observation, we believe it is important to recognise that the investment and funds industry in New Zealand is highly regulated, and there are checks and balances in place through various channels to ensure public interest in the audits of these schemes is safeguarded.

We have commented on the specific questions below. If you have any questions in respect of this submission, please feel free to contact me.

A handwritten signature in black ink, appearing to read 'Jonathan Freeman'.

Jonathan Freeman

**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.**

The Project Team found that Investment Schemes often engage other parties to participate in activities and make decisions regarding the acquisition, deployment and control of resources, as well as ensuring the effectiveness of internal controls. These may be "connected parties" but not meet the definition of "related entity" under the code.

CIVs can be complex, and this creates challenges in evaluating and applying the principles of the Code. The often-complex nature of the operational and organisational structures of CIVs, whether there are other parties/entities that may be relevant to an evaluation of independence are made even more challenging for auditors when management responsibilities are outsourced.

In our view, the principles of the related entity definition in the Code are not clearly applicable to the wider operational aspects of funds. This is particularly relevant for entities that provide services such as investment advisors or those that provide financial reporting related services to CIVs/pension funds, and that might have decision making or operational responsibilities relating to the management of the fund.

We agree that relevant Connected Parties should at least be considered in the auditor's identification and evaluation of the threats to independence, and arguably they are already captured within the conceptual framework set out in Section 120 of the Code, but, as noted by the Project Team, the application of those principles may not be consistent.

In our view, the consistent identification of a Connected Party, and the likely impact of the relationship on auditor independence would require further clarity in the Code or guidance material. Actions and safeguards need to be responsive to the perceived or actual threat, which may be obscure when the auditor does not interact with or "rely" on services provided by, or work prepared by, the Connected Party.

Not all Connected Parties will be in a position to create threats to auditor independence. In NZ, laws and regulations establish fiduciary roles for CIVs. Where a role is purely fiduciary in nature, an appointment to monitor the Manager's performance on behalf of investors, we do not believe there is any threat to auditor independence at an engagement level. In this case, both the auditor and trustee/supervisor/custodian/investment manager are all in roles with professional obligations to adopt the same fundamental principles as defined in the Code, particularly integrity and objectivity, driven by their legally defined fiduciary role and contractual obligations.

In our view, it is important that the Code continues to be a principles-based framework, allowing professionals to evaluate and respond to actual and perceived threats to the application of all the fundamental principles.

*The questions in this Section pertain to an audit of a CIV/pension fund where a Connected Party to the Scheme meets the criteria set out in paragraph 35, i.e., the Connected Party is:*

*(a) Responsible for its decision making and operations;*

*(b) Able to substantially affect its financial performance; or*

*© In a position to exert significant influence over the preparation of its accounting records or financial statements.*

**Question 2 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.**

Clarification of “Connected Parties” will assist with a consistent application of the principles of the Code. We suggest that the definition of a Connected Party as set out in paragraph 35 of the Consultation Paper (CP) could be further refined to ensure there is a consistent approach to identifying the potential relationships that would be relevant.

The standard does not differentiate between the different types of investment vehicles within the CIV space and the arrangements between fund managers and other advisors might be different depending on the nature of their investment portfolio.

In our view the proposed definition of a “connected party” may capture service providers that have no ability to influence the financial reporting of the Fund. Many funds in NZ outsource roles such as custodians, administrators, brokers, trustees, and investment advisors. Those outsourced roles typically operate under established boundaries and often involve routine and mechanical tasks, with appropriate checks and balances at the Fund Manager level. While it may be relevant to “consider” the connected party services, there may be appropriate safeguards that reduce the threats to an acceptable level.

We believe that there may be unintended challenges for auditors of PIE CIVs where those Managers use outsourced service providers (OSP). A service provided by an audit firm to an OSP might be perceived to create a self-review threat at the CIV level given the “connected party” relationship. However, an audit firm providing assistance to an OSP is unlikely to be aware of the underlying client base of the OSP, which may be sufficient to respond to any potential threats. Similarly, a Fund Manager that is a client of an OSP is likely to be one of many, thereby also reducing or eliminating threats arising from any services by the audit firm to the OSP to an acceptable levels.

As an example, an OSP may provide services that prepare accounting records or financial statements. The OSP does not have oversight and control over the CIV, which is retained by those charged with governance and, while the activities might meet the criteria of a “Connected Party” (as currently proposed), they are appropriately overseen by the management and governance roles of the CIV. In our view, such services and relationships should not be determined to have significant influence over the preparation of accounting records or financial statements.

**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.**

A fundamental principle for an auditor is to understand their audit client. This includes understanding the wider operational and organisational boundaries.

In our view, the Principles in section 120 of the Code are clear and providing clarity on the parties that may be captured in the wider sphere of the audit client relationship does not change the principles that auditors should already be applying when evaluating the potential threats arising from relationships with their audit clients. The five underlying threats to independence do not change.

**Question 4 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.**

As a Firm, we believe that PwC NZ applies the principles of Section 120 of the Code consistently. Our engagement acceptance procedures require engagement teams to identify all relevant/impacted parties and to perform relationship checks to identify whether there are relationships that might impact



our objectivity or independence. If the analysis identifies an investment scheme that is audited as a recipient or beneficiary of the services, it is necessary for the team to complete appropriate independence clearance procedures and obtain confirmation from the audit engagement partner as to whether the firm could proceed with the engagement.

**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 refer to our earlier comments, and in particular, our responses to questions 1 and 2.  
We believe that threats to auditor independence is 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 – custodian, supervisor, professional advisor  
nature of the services provided – routine and mechanical, narrowly defined  
extent of control and oversight by fund manager and TCWG  
whether there is necessary 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**

No answer required here – XRB to respond.