



Independent Assurance Practitioner's Report

To the Governor of Reserve Bank of New Zealand

Scope

In accordance with the terms of the engagement letter dated 18 December 2020, we have undertaken a reasonable assurance engagement to report on the design and operating effectiveness of the control (noted in Appendix A) within the Reserve Bank of New Zealand's ("the Reserve Bank", or "the Bank") NZClear system comprising of a reconciliation control relevant to the control objective outlined in Appendix A, throughout the period 1 July 2021 to 30 September 2021.

Reserve Bank's responsibilities

The Governor of the Bank is responsible for:

- the reconciliation processes, procedures and control within the NZClear system;
- identifying the control objective as set out in Appendix A;
- identifying the risks that threaten achievement of the control objective;
- designing a control to mitigate those risks, so that those risks will not prevent achievement of the identified control objective;
- ensuring the control is operating effectively as designed throughout the period; and
- publication of this independent assurance report whether in printed or electronic form.

Our independence and quality control

We have complied with the Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* or other professional requirements, or requirements in law and regulation, that are at least as demanding, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

In accordance with Professional and Ethical Standard 3 (Amended) *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements* or other professional requirements, or requirements in law and regulation, that are at least as demanding, our firm maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We are independent of the Bank. Our firm carries out other assurance services and non-assurance services for the Bank including the statutory audit of the Bank, ISAE (NZ) 3402 controls assurance reporting for the NZClear and ESAS systems, and agreed upon procedures over NZClear participant balances. The provision of these other assurance services and non-assurance services has not impaired our independence as auditors providing this assurance report.

Assurance practitioner's responsibilities

Our responsibility is to express an opinion on the suitability of the design to achieve the control objective and operating effectiveness of the Bank's NZClear system reconciliation control, based on our procedures. We conducted our engagement in accordance with Standard on Assurance Engagements 3150 *Assurance Engagements on Controls* issued in New Zealand (SAE 3150). That Standard requires that we comply with ethical requirements and plan and perform our procedures to obtain reasonable assurance about whether, in all material respects, the control is suitably designed to achieve the control objective and the control operated effectively throughout the period.

An assurance engagement to report on the design and operating effectiveness of a control involves performing procedures to obtain evidence about whether the control was suitably designed to achieve the control objective and the control operated effectively throughout the period.



The procedures selected depend on our judgement, including the assessment of the risks that the control is not suitably designed or operating effectively. Our procedures included testing the operating effectiveness of the control that we consider necessary to achieve the control objective identified. An assurance engagement of this type also includes evaluating the suitability of the control objective. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Limitations of controls

Because of the inherent limitations of any internal control structure it is possible that, even if the control is suitably designed and operating effectively, the control objective may not be achieved and so fraud, error, or non-compliance with laws and regulations may occur and not be detected. Further, the internal control structure, within which the control that we have assured operated, has not itself been assured and no opinion is expressed as to its effectiveness. Further, we did not evaluate the security and controls over the electronic publication of this report.

An assurance engagement on operating effectiveness of a control is not designed to detect all instances of the control operating ineffectively as it is not performed continuously throughout the period and the tests performed are on a sample basis. Any projection of the evaluation of the control to future periods is subject to the risk that the control may become inadequate because of changes in conditions, or that the degree of compliance with it may deteriorate.

Opinion

Our opinion has been formed on the basis of the matters outlined in this report.

In our opinion, in all material respects:

- a. The Bank's NZClear system reconciliation control was suitably designed to achieve the control objective identified in Appendix A; and
- b. The control operated effectively throughout the period 1 July 2021 to 30 September 2021.

Description of tests of controls

The specific control tested and the nature, timing and results of that test are listed in Appendix A.

Restriction on Use of our Report

This report has been prepared solely for the purpose of reporting on the internal control systems at the Bank, in relation to the NZClear system reconciliation control relevant to the control objective outlined in Appendix A. We acknowledge this report will be made available to NZClear Participants on request in accordance with Clause 16.3 of the NZClear Rules. Notwithstanding our agreement to allow the Bank to provide a copy of our report to NZClear Participants we do not accept or assume a duty of care or other legal responsibility to your Participants.

Our report should not be used for any other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility for any reliance on this report to anyone other than the Governor of the Reserve Bank of New Zealand, or for any purpose other than that for which it was prepared. In addition, we disclaim any responsibility for reliance on this report other than the purpose for which it was prepared.

Christopher Barber
On behalf of the Auditor-General
Wellington, New Zealand
11 November 2021

PricewaterhouseCoopers



Appendix A

NZClear Description of Control Objectives and Control Procedures

Control Objective - NZClear holding of securities are complete and accurate

Control procedures	PwC testing	Results
Regular reconciliations are prepared reconciling the number of securities in the NZClear System and those held in various registries under the name of New Zealand Central Securities Depository Limited (NZCSD). These are independently reviewed by another Payments and Settlement Services team member with discrepancies followed up immediately.	Inspection For a sample of reconciliations performed during the period, confirmed that: (i) Holdings of security reported by the NZClear system was reconciled to the appropriate registry; (ii) Reconciling items were investigated on the day they were identified; and (iii) The reconciliations were independently peer reviewed.	No exceptions noted.