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Tēnā koe Jeremy,

CONSULTATION PAPER – ASSURANCE REPORTS ON BANK DISCLOSURE STATEMENTS

Thank you for the opportunity to comment on the proposed changes to disclosure Orders in Council to simplify and modernise requirements for assurance reports. Overall, we support the proposed changes.

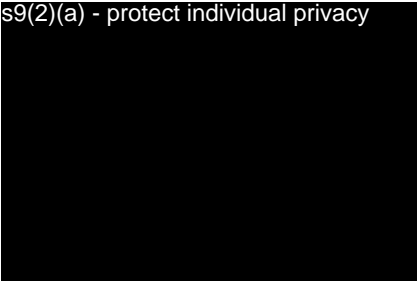
The Auditor-General is responsible for auditing all public sector entities in New Zealand. Public sector entities in New Zealand include KiwiBank Limited and its New Zealand domiciled subsidiaries and the other entities it controls. We provide Parliament and the public with independent assurance that public sector entities are operating and accounting for their performance as intended.

We provide comments and responses to the specific questions in the attachment to this letter.

If you have any questions please contact §9(2)(a) - protect individual privacy or me at §9(2)(a) - protect individual privacy

Nāku noa, nā

§9(2)(a) - protect individual privacy



RESPONSES TO SPECIFIC QUESTIONS

Question 1:

Do you agree that the changes will make assurance reports on disclosure statements easier to navigate and more readable?

We support the following changes:

1. The deletions made (clauses 2(1)(a)-(f), and 2(1)(h), in Schedule 1) where the requirements for the form of opinions are appropriately dealt with in the auditing standards.
This eliminates duplication and terminology differences between legislation and the auditing standards that could occur as the auditing standards are updated.
2. The narrowed scope of assurance required over the disclosure information.
This clarifies that assurance is provided over Schedules 4, 7, 13, 14, 15 and 17.
3. An assurance report on capital adequacy and regulatory liquidity disclosures that is separate from the audit report on the financial statements, and assurance over the disclosure requirements of schedules 4, 7, 13, 14, 15 and 17.

Having separate reports distinguishes between those that provide reasonable assurance and those that provide limited assurance in accordance with the requirements of the Order. It simplifies how the responsibilities of auditors and management are described in the assurance reports.

4. The amendment that all required assurance reports are prepared in accordance with “applicable auditing and assurance standards”.

Generic references to auditing and assurance standards eliminates the need for changes to the Order when the auditing and assurance standards are updated or amended in future. This amendment will also allow the auditor’s assurance report on the capital adequacy and regulatory liquidity disclosures to be carried out under a more appropriate assurance standard.

We encourage you to consider, and discuss with relevant stakeholders, whether the capital adequacy and regulatory liquidity disclosures are historical financial information, as defined by the auditing standards, or non-financial information, as different assurance standards would apply depending on how the information is viewed. If the information is not historical financial information, it would for example be more appropriate for the auditor to report in accordance with ISAE (NZ) 3000 (Revised) *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*.

What types of reader do you expect to consider these reports?

We expect a layman reader to focus on the financial statements and the auditor’s report thereon, while the capital adequacy and liquidity ratios would be of most interest to RBNZ and investors.

Question 2:

Do you agree that the changes will reduce the cost of complying with the assurance requirements, for banks and their auditors?

It is unlikely that the cost of providing assurance will reduce. Providing banks with an option to request reasonable assurance on interim financial statements will almost certainly increase costs, if

that option were chosen. It is currently common practice for an entity to prepare interim financial statements using NZ IAS 34 and for the auditor to review those statements in accordance with NZ SRE 2410.

Question 3:

Do you agree that any transitional costs will be outweighed by the ongoing benefits thereafter?

We support the amendments and agree that any transitional costs will be outweighed by the ongoing benefits.

Proposed editorial changes:

We propose the following editorial changes on the redlined document related to New Zealand banks, which was issued with this consultation. Our changes are shown in dark blue markup with reasons for the changes in the right-hand column.

Markup	Reason for proposal
<p>25A Assurance reports for full year disclosure statement</p> <p>A full year disclosure statement of a registered bank must be accompanied by include assurance reports that—</p> <p>(a) are of the form prescribed in clause 1 of Schedule 1; and</p> <p>(b) are signed by the auditor, either in the auditor’s own Name, or the name of the auditor’s firm or both.</p>	<p>“Include” is more appropriate than “accompany” because the assurance reports are included in the annual and half year disclosure statement (similar to an annual report).</p> <p>Aligned with ISA NZ 700 (Revised).</p>
<p>25B Assurance reports for half year disclosure statement</p> <p>(1) Unless subclause (2) applies, the half year disclosure statement must be accompanied by include a limited assurance report that—</p> <p>(a) is of the form prescribed in clause 3 of Schedule 1; and</p> <p>(b) is signed by the auditor, either in the auditor’s own Name, or the name of the auditor’s firm or both.</p>	
<p>31 Assurance reports Audit report required for full year disclosure statements but optional for half year disclosure statements</p> <p>(1) An independent auditor’s report including additional The auditor’s reasonable assurance opinions report, prepared in accordance with applicable auditing and assurance standards, which includes must in respect of a full year disclosure statement and may in respect of a half year disclosure statement state—</p> <p>(a) includes the auditor’s opinion report, as required under the Financial Markets Conduct Act 2013, on the financial statements of the registered bank’s banking group required under clause 24 of Subpart 2; and</p> <p>(a) the work done by the auditor;</p> <p>(b) the scope and limitations of the audit;</p> <p>(c) the existence of any relationship (other than that of auditor) which the auditor has with, or interest the auditor has in, the registered bank and any associated person of the registered bank;</p>	<p>Simplified and to align with how the auditor would present the opinions in the independent auditor’s report.</p>

<p>(d) whether or not the auditor has obtained all the information and explanations that the auditor has required;</p> <p>(e) whether or not, in the auditor's opinion, as far as appears from an examination of them, proper accounting records have been kept by the registered bank's banking group;</p> <p>(f) whether or not, in the auditor's opinion, the financial statements of the registered bank's banking group comply with generally accepted accounting practice, and if they do not, the respects in which they fail to comply;</p> <p>(g)(b) states whether or not, in the auditor's opinion (where applicable), on whether the information that is required to be disclosed in the full year disclosure statement are prepared, in all material respects, in accordance with under Schedules 4, 7, 13, 14, 15 and 17 has been prepared in accordance with of the guidelines issued under section 78(3) of the Act (if any) or any conditions of registration, and is in accordance with the books and records of the registered bank's banking group; and fairly states, in all material respects, the matters to which it relates in accordance with those Schedules</p> <p>(h) whether or not, in the auditor's opinion,—</p> <p>(i) for an auditor's report that relates to a full year disclosure statement, the financial statements of the registered bank's banking group give a true and fair view of the matters to which they relate and, if they do not, the respects in which they fail to give such a view; and</p> <p>(ii) for an auditor's report that relates to a half year disclosure statement, the interim financial statements of the registered bank's banking group are prepared, in all material respects, in accordance with NZ IAS 34;</p> <p>(i)(c) states whether or not, in the auditor's opinion, the information that is required to be disclosed under the applicable Schedules 4, 7, 13, 14, 15 and 17 listed in subclause (2) fairly states the matters to which it relates in accordance with those schedules and, if it does not, the respects in which it fails to fairly state those matters.;</p>	
<p>(2) An independent limited assurance report prepared in accordance with applicable auditing and assurance standards which,—</p> <p>(i)(a) if the registered bank has been accredited by the Reserve Bank to use the internal models based approach to capital adequacy meets the condition in clause 21(1)(c) of Part 2, for the information relating to capital adequacy and regulatory liquidity requirements that is required to be disclosed under Schedule 119, states provides—</p> <p>(i) that the auditor's responsibility is to express a limited assurance conclusion that the information has been examined by the auditor;</p> <p>(ii) on whether or not anything has come to the auditor's attention which would cause the auditor to believe that the information is not, in all material respects, disclosed in accordance with Schedule 119; and/or</p>	<p>Simplified. The auditor's responsibilities will state that a limited conclusion will be expressed and under which assurance standard. The requirement here is therefore a duplication.</p> <p>It is unnecessary to say whether 'or not'. The auditing and assurance standards require the auditor to modify the opinion or conclusion and describe in the basis of opinion or conclusion the why a matter is not in terms of accounting standards or legislation.</p>

~~(k)(b) otherwise, if the registered bank meets the condition in clause 21(1)(d) of Part 2,~~ for the information relating to capital adequacy and regulatory liquidity requirements that is required to be disclosed under Schedule ~~911,~~ states provides —

~~(i) that the auditor's responsibility is to express a limited assurance conclusion that the information has been examined by the auditor;~~

~~(ii) on whether or not~~ anything has come to the auditor's attention which would cause the auditor to believe that the information is not, in all material respects, disclosed in accordance with Schedule ~~911.~~

Similar amendments to the above should be considered for the Limited assurance report for the half year disclosure statement. It should be considered whether one assurance report remains appropriate for the half year disclosure statement because limited assurance is required on all aspects.