

This secondary legislation is administered by the External Reporting Board.

For more information please see:

Website: [www.xrb.govt.nz](http://www.xrb.govt.nz)

Contact phone: +64 4 550 2030

Contact address: Level 6/154 Featherston St, Wellington, 6011

This standard was published in the *Gazette* on 5 February 2026 and takes effect on 5 March 2026. There is an explanatory note at the end of this standard that includes an explanation of how and from when this standard operates.

## **International Standard on Auditing (New Zealand) 320, *Materiality in Planning and Performing an Audit***

This Standard was issued under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board

- (a) acting under delegated authority of the External Reporting Board (given in accordance with section 73 of the Crown Entities Act 2004); and
- (b) after complying with section 22 of the Financial Reporting Act 2013.

## **CONTENTS**

	Paragraph
<b>Title</b> .....	0.1
<b>Commencement</b> .....	0.2
<b>Interpretation</b> .....	0.3
<b>Application</b> .....	0.4
<b>Revocation</b> .....	0.5
<b>Transitional, savings, and related provisions</b> .....	0.6
<b>Introduction</b>	
Scope of this ISA (NZ) .....	1–NZ1.1
Materiality in the Context of an Audit .....	2–6
Effective Date .....	7
<b>Objective</b> .....	8
<b>Definition</b> .....	9
<b>Requirements</b>	

Determining Materiality and Performance Materiality When Planning the Audit.....	10–11
Revision as the Audit Progresses.....	12–13
Documentation.....	14

## **Application and Other Explanatory Material**

Materiality and Audit Risk.....	A1
Materiality in the Context of an Audit.....	A2
Determining Materiality and Performance Materiality When Planning the Audit.....	A3–A13
Revision as the Audit Progresses.....	A14

## **Schedule 1**

### **Title**

- 0.1 This is the International Standard on Auditing (New Zealand) 320, *Materiality in Planning and Performing an Audit*.

### **Commencement**

- 0.2 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019 (see section 27 of the Financial Reporting Act 2013).

### **Interpretation**

- 0.3 In this standard **ISA (NZ) 320** means the International Standard on Auditing (New Zealand) 320, *Materiality in Planning and Performing an Audit*.

### **Application**

- 0.4 This standard commences to apply in relation to accounting periods that begin on or after 15 December 2026.

### **Revocation**

- 0.5 The standard International Standard on Auditing (New Zealand) 320, *Materiality in Planning and Performing an Audit*, issued in July 2011 is revoked on the date that this standard takes effect. To avoid doubt, the revoked standard continues to apply in relation to accounting periods that begin before 15 December 2026.

### **Transitional, savings, and related provisions**

- 0.6 The transitional, savings, and related provisions (if any) set out in Schedule 1 have effect according to their terms.

## Introduction

### Scope of this ISA (NZ)

1. This International Standard on Auditing (New Zealand) (ISA (NZ)) deals with the auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements. ISA (NZ) 450<sup>1</sup> explains how materiality is applied in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.
- NZ1.1 This standard must be read in conjunction with International Standard on Auditing (New Zealand) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*, and any other applicable standards.

### Materiality in the Context of an Audit

2. Financial reporting frameworks often discuss the concept of materiality in the context of the preparation and presentation of financial statements. Although financial reporting frameworks may discuss materiality in different terms, they generally explain that:
  - Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements;
  - Judgements about materiality are made in light of surrounding circumstances, and are affected by the size or nature of a misstatement, or a combination of both; and
  - Judgements about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group.<sup>2</sup> The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.
3. Such a discussion, if present in the applicable financial reporting framework, provides a frame of reference to the auditor in determining materiality for the audit. If the applicable financial reporting framework does not include a discussion of the concept of materiality, the characteristics referred to in paragraph 2 provides the auditor with such a frame of reference.
4. The auditor's determination of materiality is a matter of professional judgement, and is affected by the auditor's perception of the financial information needs of users of the financial statements. In this context, it is reasonable for the auditor to assume that users:
  - (a) Have a reasonable knowledge of business and economic activities and accounting and a willingness to study the information in the financial statements with reasonable diligence;
  - (b) Understand that financial statements are prepared, presented and audited to levels of materiality;

<sup>1</sup> ISA (NZ) 450, *Evaluation of Misstatements Identified during the Audit*

<sup>2</sup> See, for example, the New Zealand Equivalent to the IASB *Conceptual Framework for Financial Reporting* (2018 NZ *Conceptual Framework*)

- (c) Recognise the uncertainties inherent in the measurement of amounts based on the use of estimates, judgement and the consideration of future events; and
  - (d) Make reasonable economic decisions on the basis of the information in the financial statements.
5. The concept of materiality is applied by the auditor both in planning and performing the audit, and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. (Ref: Para. A1)
6. In planning the audit, the auditor makes judgements about misstatements that will be considered material. These judgements provide a basis for:
- (a) Determining the nature, timing and extent of risk assessment procedures;
  - (b) Identifying and assessing the risks of material misstatement; and
  - (c) Determining the nature, timing and extent of further audit procedures.

The materiality determined when planning the audit does not necessarily establish an amount below which uncorrected misstatements, individually or in the aggregate, will always be evaluated as immaterial. The circumstances related to some misstatements may cause the auditor to evaluate them as material even if they are below materiality. It is not practicable to design audit procedures to detect all misstatements that could be material solely because of their nature. However, consideration of the nature of potential misstatements in disclosures is relevant to the design of audit procedures to address risks of material misstatement<sup>3</sup>. In addition, when evaluating the effect on the financial statements of all uncorrected misstatements, the auditor considers not only the size but also the nature of uncorrected misstatements, and the particular circumstances of their occurrence.<sup>4</sup> (Ref: Para.A2)

### **Effective Date**

7. [See paragraphs 0.2 and 0.4.]

### **Objective**

8. The objective of the auditor is to apply the concept of materiality appropriately in planning and performing the audit.

### **Definition**

9. For purposes of the ISAs (NZ), the following terms have the meanings attributed below:
- (a) Performance materiality – The amount or amounts set by the auditor at less than materiality for the financial statements as a whole to reduce aggregation risk to an appropriately low level. If applicable, performance materiality also refers to the amount or amounts set by the auditor at less than the materiality level or levels for particular classes of transactions, account balances or disclosures.

---

<sup>3</sup> ISA (NZ) 315, *Identifying and Assessing the Risks of Material Misstatement*, paragraphs A204 and A233

<sup>4</sup> ISA (NZ) 450, paragraph A22

- (b) Aggregation risk – The probability that the aggregate of uncorrected and undetected misstatements exceeds materiality for the financial statement as a whole.

## Requirements

### Determining Materiality and Performance Materiality When Planning the Audit

- 10. When establishing the overall audit strategy, the auditor shall determine materiality for the financial statements as a whole. If, in the specific circumstances of the entity, there is one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements, the auditor shall also determine the materiality level or levels to be applied to those particular classes of transactions, account balances or disclosures. (Ref: Para. A3–A12)
- 11. The auditor shall determine performance materiality for purposes of assessing the risks of material misstatement and determining the nature, timing and extent of further audit procedures. (Ref: Para. A13)

### Revision as the Audit Progresses

- 12. The auditor shall revise materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) in the event of becoming aware of information during the audit that would have caused the auditor to have determined a different amount (or amounts) initially. (Ref: Para. A14)
- 13. If the auditor concludes that a lower materiality for the financial statements as a whole (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures) than that initially determined is appropriate, the auditor shall determine whether it is necessary to revise performance materiality, and whether the nature, timing and extent of the further audit procedures remain appropriate.

### Documentation

- 14. The audit shall include in the audit documentation the following amounts and the factors considered in their determination.<sup>5</sup>
  - (a) Materiality for the financial statements as a whole (see paragraph 10);
  - (b) If applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures (see paragraph 10);
  - (c) Performance materiality (see paragraph 11); and
  - (d) Any revision of (a)–(c) as the audit progressed (see paragraphs 12–13).

\*\*\*

---

<sup>5</sup> ISA (NZ) 230, *Audit Documentation*, paragraphs 8–11 and paragraph A6

## Application and Other Explanatory Material

### Materiality and Audit Risk (Ref: Para. 5)

- A1. In conducting an audit of financial statements, the overall objectives of the auditor are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, thereby enabling the auditor to express an opinion on whether the financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework; and to report on the financial statements, and communicate as required by the ISAs (NZ), in accordance with the auditor's findings.<sup>6</sup> The auditor obtains reasonable assurance by obtaining sufficient appropriate audit evidence to reduce audit risk to an acceptably low level.<sup>7</sup> Audit risk is the risk that the auditor expresses an inappropriate audit opinion when the financial statements are materially misstated. Audit risk is a function of the risks of material misstatement and detection risk.<sup>8</sup> Materiality and audit risk are considered throughout the audit, in particular, when:
- (a) Identifying and assessing the risks of material misstatement;<sup>9</sup>
  - (b) Determining the nature, timing and extent of further audit procedures;<sup>10</sup> and
  - (c) Evaluating the effect of uncorrected misstatements, if any, on the financial statements<sup>11</sup> and in forming the opinion in the auditor's report.<sup>12</sup>

### Materiality in the Context of an Audit (Ref: Para. 6)

- A2. Identifying and assessing the risks of material misstatement<sup>13</sup> involves the use of professional judgement to identify those classes of transactions, account balances and disclosures, including qualitative disclosures, the misstatement of which could be material (i.e., in general, misstatements are considered to be material if they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements as a whole). When considering whether misstatements in qualitative disclosures could be material, the auditor may identify relevant factors such as:
- The circumstances of the entity for the period (for example, the entity may have undertaken a significant business combination during the period).
  - The applicable financial reporting framework, including changes therein (for example, a new financial reporting standard may require new qualitative disclosures that are significant to the entity).

<sup>6</sup> ISA (NZ) 200, *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand)*, paragraph 13

<sup>7</sup> ISA (NZ) 200, paragraph 19

<sup>8</sup> ISA (NZ) 200, paragraph 15(c)

<sup>9</sup> ISA (NZ) 315

<sup>10</sup> ISA (NZ) 330, *The Auditor's Responses to Assessed Risks*

<sup>11</sup> ISA (NZ) 450

<sup>12</sup> ISA (NZ) 700, *Forming an Opinion and Reporting on Financial Statements*

<sup>13</sup> ISA (NZ) 315, paragraphs 28–37, requires the auditor to identify and assess the risk of material misstatement at the financial statement and assertion level.

- Qualitative disclosures that are important to users of the financial statements because of the nature of an entity (for example, liquidity risk disclosures may be important to users of the financial statements for a financial institution).

## **Determining Materiality and Performance Materiality when Planning the Audit**

### *Considerations Specific to Public Sector Entities (Ref: Para. 10)*

- A3. In the case of a public sector entity, legislators and regulators are often the primary users of its financial statements. Furthermore, the financial statements may be used to make decisions other than economic decisions. The determination of materiality for the financial statements as a whole (and, if applicable, materiality level or levels for particular classes of transactions, account balances or disclosures) in an audit of the financial statements of a public sector entity is therefore influenced by law, regulation or other authority, and by the financial information needs of legislators and the public in relation to public sector programmes.

### *Use of Benchmarks in Determining Materiality for the Financial Statements as a Whole (Ref: Para. 10)*

- A4. Determining materiality involves the exercise of professional judgement. A percentage is often applied to a chosen benchmark as a starting point in determining materiality for the financial statements as a whole. Factors that may affect the identification of an appropriate benchmark include the following:
- The elements of the financial statements (for example, assets, liabilities, equity, revenue, expenses);
  - Whether there are items on which the attention of the users of the particular entity's financial statements tends to be focused (for example, for the purpose of evaluating financial performance users may tend to focus on profit, revenue or net assets);
  - The nature of the entity, where the entity is in its life cycle, and the industry and economic environment in which the entity operates;
  - The entity's ownership structure and the way it is financed (for example, if an entity is financed solely by debt rather than equity, users may put more emphasis on assets, and claims on them, than on the entity's earnings); and
  - The relative volatility of the benchmark.
- A5. Examples of benchmarks that may be appropriate, depending on the circumstances of the entity, include categories of reported income such as profit before tax, total revenue, gross profit and total expenses, total equity or net asset value. Profit before tax from continuing operations is often used for profit-oriented entities. When profit before tax from continuing operations is volatile, other benchmarks may be more appropriate, such as gross profit or total revenues.
- A6. In relation to the chosen benchmark, relevant financial data ordinarily includes prior periods' financial results and financial positions, the period-to-date financial results and financial position, and budgets or forecasts for the current period, adjusted for significant changes in the circumstances of the entity (for example, a significant

business acquisition) and relevant changes of conditions in the industry or economic environment in which the entity operates. For example, when, as a starting point, materiality for the financial statements as a whole is determined for a particular entity based on a percentage of profit before tax from continuing operations, circumstances that give rise to an exceptional decrease or increase in such profit may lead the auditor to conclude that materiality for the financial statements as a whole is more appropriately determined using a normalised profit before tax from continuing operations figure based on past results.

- A7. Materiality relates to the financial statements on which the auditor is reporting. Where the financial statements are prepared for a financial reporting period of more or less than twelve months, such as may be the case for a new entity or a change in the financial reporting period, materiality relates to the financial statements prepared for that financial reporting period.
- A8. Determining a percentage to be applied to a chosen benchmark involves the exercise of professional judgement. There is a relationship between the percentage and the chosen benchmark, such that a percentage applied to profit before tax from continuing operations will normally be higher than a percentage applied to total revenue. For example, the auditor may consider five percent of profit before tax from continuing operations to be appropriate for a profit-oriented entity in a manufacturing industry, while the auditor may consider one percent of total revenue or total expenses to be appropriate for a not-for-profit entity. Higher or lower percentages, however, may be deemed appropriate in the circumstances.

#### *Considerations Specific to Small Entities*

- A9. When an entity's profit before tax from continuing operations is consistently nominal, as might be the case for an owner-managed business where the owner takes much of the profit before tax in the form of remuneration, a benchmark such as profit before remuneration and tax may be more relevant.

#### *Considerations Specific to Public Sector Entities*

- A10. In an audit of a public sector entity, total cost or net cost (expenses less revenues or expenditure less receipts) may be appropriate benchmarks for programme activities. Where a public sector entity has custody of public assets, assets may be an appropriate benchmark.

#### *Materiality Level or Levels for Particular Classes of Transactions, Account Balances or Disclosures (Ref: Para. 10)*

- A11. Factors that may indicate the existence of one or more particular classes of transactions, account balances or disclosures for which misstatements of lesser amounts than materiality for the financial statements as a whole could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements include the following:
  - Whether law, regulation or the applicable financial reporting framework affect users' expectations regarding the measurement or disclosure of certain items (for example, related party transactions, the remuneration of management and those

charged with governance, and sensitivity analysis for fair value accounting estimates with high estimation uncertainty).

- The key disclosures in relation to the industry in which the entity operates (for example, research and development costs for a pharmaceutical company).
- Whether attention is focused on a particular aspect of the entity's business that is separately disclosed in the financial statements (for example, disclosures about segments or a significant business combination).

A12. In considering whether, in the specific circumstances of the entity, such classes of transactions, account balances or disclosures exist, the auditor may find it useful to obtain an understanding of the views and expectations of those charged with governance and management.

*Performance Materiality (Ref: Para. 11)*

A13. Planning the audit solely to detect individually material misstatements overlooks the fact that the aggregate of individually immaterial misstatements may cause the financial statements to be materially misstated, and leaves no margin for possible undetected misstatements. Performance materiality (which, as defined, is one or more amounts) is set at less than materiality for the financial statements as a whole to reduce aggregation risk to an appropriately low level. Similarly, performance materiality relating to a materiality level determined for a particular class of transactions, account balance or disclosure is set to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements in that particular class of transactions, account balance or disclosure exceeds the materiality level for that particular class of transactions, account balance or disclosure. The determination of performance materiality is not a simple mechanical calculation and involves the exercise of professional judgement. It is affected by the auditor's understanding of the entity, updated during the performance of the risk assessment procedures; and the nature and extent of misstatements identified in previous audits and thereby the auditor's expectations in relation to misstatements in the current period.

**Revision as the Audit Progresses (Ref: Para. 12)**

A14. Materiality for the financial statements as a whole (and, if applicable, the materiality level or levels for particular classes of transactions, account balances or disclosures) may need to be revised as a result of a change in circumstances that occurred during the audit (for example, a decision to dispose of a major part of the entity's business), new information, or a change in the auditor's understanding of the entity and its operations as a result of performing further audit procedures. For example, if during the audit it appears as though actual financial results are likely to be substantially different from the anticipated period end financial results that were used initially to determine materiality for the financial statements as a whole, the auditor revises that materiality.

## **Schedule 1**

### **Transitional, savings, and related provisions**

#### **Part 1 Provisions relating to this standard as made**

There are no transitional, savings, or related provisions in this standard as made.

**Issued at Wellington on 30 January 2026**

Graeme Pinfold

Chair

New Zealand Auditing and Assurance Standards Board acting under delegated authority of the External Reporting Board

---

## **Explanatory note and other information**

*This note and other information are not part of the standard*

### **Explanatory note**

This standard is the International Standard on Auditing (New Zealand) 320, *Materiality in Planning and Performing an Audit*.

This standard is the New Zealand equivalent of International Standard on Auditing 320, *Materiality in Planning and Performing an Audit*, and results from revisions to international standards issued by the International Auditing and Assurance Standards Board relating to going concern, fraud and to reflect the significant public interest in certain types of entities.

This standard applies to accounting periods that begin on or after 15 December 2026.

This standard was issued by the New Zealand Auditing and Assurance Standards Board acting under delegated authority of the External Reporting Board.

This standard revokes the ISA (NZ) 320 *Materiality in Planning and Performing an Audit* issued in July 2011. However, that standard continues to apply in relation to accounting periods that begin before 15 December 2026 as if that standard had not been revoked. (see Legislation Act 2019).

### **Conformity with International Standards on Auditing**

This Standard conforms to International Standard on Auditing ISA 320, *Materiality in Planning and Performing an Audit*, issued by the International Auditing and Assurance Standards Board (IAASB).

Paragraphs that have been amended or added to this ISA (NZ) (and do not appear in the text of the equivalent ISA) are identified with the prefix “NZ”.

This ISA (NZ) incorporates terminology and definitions used in New Zealand.

Compliance with this ISA (NZ) enables compliance with ISA 320.

### **Comparison with Australian Auditing Standards**

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 320, *Materiality in Planning and Performing an Audit*.

ASA 320 conforms to ISA 320.

### **Copyright**

The Standard above is secondary legislation and, by section 27 of the Copyright Act 1994, no copyright exists in it.

This Standard reproduces, with the permission of the International Federation of Accountants (IFAC), the corresponding international standard issued by the International Auditing and Assurance Standards Board (“IAASB”). Reproduction is allowed within New Zealand. All existing rights, including the copyright, reserved outside New Zealand, with exception of the

right to reproduce for the purposes of personal use or other fair dealing. Further information can be obtained from IFAC at [www.ifac.org](http://www.ifac.org) or by writing to [permissions@ifac.org](mailto:permissions@ifac.org).

For any inquiries generally in relation to the reproduction or use of this standard, please contact the External Reporting Board at <https://www.xrb.govt.nz/about-xrb/contact-us/>

**ISBN** [978-1-99-100585-4](https://www.xrb.govt.nz/about-xrb/contact-us/)

## History of Amendments

### Table of instruments – ISA (NZ) 320

This table lists the instruments amending this standard.

Instrument	Date made	Application date

## Minimum Legislative Information

**This Standard is secondary legislation published under the Legislation Act 2019.**

**Title** International Standard on Auditing (New Zealand) 320,  
*Materiality in Planning and Performing an Audit*

**Principal or amendment** Principal

**Consolidated version** No

**Empowering Act and provisions** Section 12(b) of the Financial Reporting Act 2013

**Replacement empowering Act and provision**

**Maker name** New Zealand Auditing and Assurance Standards Board acting under delegated authority of the External Reporting Board

**Administering agency** External Reporting Board

**Date made** 30 January 2026

**Publication date** 5 February 2026

**Notification date** 5 February 2026

**Commencement date** 5 March 2026

**End date**

**Consolidation as at date**

**Related instruments**