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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) 501, Audit Evidence – Specific Considerations for Selected Items**

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>History of Amendments</b>	
<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
Effective Date	2
<b>Objective</b>	3
<b>Requirements</b>	
Inventory	4–8
Litigation and Claims	9–12
Segment Information	13

## Application and Other Explanatory Material

Inventory .....	A1–A16
Litigation and Claims .....	A17–A25
Segment Information .....	A26–A27

[NZ] Appendix 1: Example of a Letter of Specific Enquiry to External Legal Counsel

~~Accompanying Attachment: Conformity to the International Standards on Auditing~~

## Schedule 1

**International Standard on Auditing (New Zealand) (ISA (NZ) 501, “Audit Evidence – Specific Considerations for Selected Items,” should be read in conjunction with ISA (NZ) 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing (New Zealand).”**

### Title

0.1 This is the International Standard on Auditing (New Zealand) 501, *Audit Evidence – Specific Considerations for Selected Items*.

### 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) 501** means the International Standard on Auditing (New Zealand) 501, *Audit Evidence – Specific Considerations for Selected Items*.

### 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) 501 *Audit Evidence – Specific Considerations for Selected Items* 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 specific considerations by the auditor in obtaining sufficient appropriate audit evidence in accordance with ISA (NZ) 330,<sup>1</sup> ISA (NZ) 500<sup>2</sup> and other relevant ISAs (NZ), with respect to certain aspects of inventory, litigation and claims involving the entity, and segment information in an audit of 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.

### Effective Date

2. ~~This ISA (NZ) is effective for audits of financial statements for periods beginning on or after 1 September, 2011. [See paragraphs 0.2 and 0.4.]~~

### Objective

3. The objective of the auditor is to obtain sufficient appropriate audit evidence regarding the:
  - (a) Existence and condition of inventory;
  - (b) Completeness of litigation and claims involving the entity; and
  - (c) Presentation and disclosure of segment information in accordance with the applicable financial reporting framework.

## Requirements

### Inventory

4. If inventory is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by:
  - (a) Attendance at physical inventory counting, unless impracticable, to: (Ref: Para. A1–A3)
    - (i) Evaluate management's instructions and procedures for recording and controlling the results of the entity's physical inventory counting; (Ref: Para. A4)
    - (ii) Observe the performance of management's count procedures; (Ref: Para. A5)
    - (iii) Inspect the inventory; and (Ref: Para. A6)
    - (iv) Perform test counts; and (Ref: Para. A7–A8)

<sup>1</sup> ISA (NZ) 330, *The Auditor's Responses to Assessed Risks*.

<sup>2</sup> ISA (NZ) 500, *Audit Evidence*.

- (b) Performing audit procedures over the entity's final inventory records to determine whether they accurately reflect actual inventory count results.
- 5. If physical inventory counting is conducted at a date other than the date of the financial statements, the auditor shall, in addition to the procedures required by paragraph 4, perform audit procedures to obtain audit evidence about whether changes in inventory between the count date and the date of the financial statements are properly recorded. (Ref: Para. A9–A11)
- 6. If the auditor is unable to attend physical inventory counting due to unforeseen circumstances, the auditor shall make or observe some physical counts on an alternative date, and perform audit procedures on intervening transactions.
- 7. If attendance at physical inventory counting is impracticable, the auditor shall perform alternative audit procedures to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory. If it is not possible to do so, the auditor shall modify the opinion in the auditor's report in accordance with ISA (NZ) 705 (Revised).<sup>3</sup> (Ref: Para. A12–A14)
- 8. If inventory under the custody and control of a third party is material to the financial statements, the auditor shall obtain sufficient appropriate audit evidence regarding the existence and condition of that inventory by performing one or both of the following:
  - (a) Request confirmation from the third party as to the quantities and condition of inventory held on behalf of the entity. (Ref: Para. A15)
  - (b) Perform inspection or other audit procedures appropriate in the circumstances. (Ref: Para. A16)

### **Litigation and Claims**

- 9. The auditor shall design and perform audit procedures in order to identify litigation and claims involving the entity which may give rise to a risk of material misstatement, including: (Ref: Para. A17–A19)
  - (a) Enquiry of management and, where applicable, others within the entity, including in-house legal counsel;
  - (b) Reviewing minutes of meetings of those charged with governance and correspondence between the entity and its external legal counsel; and
  - (c) Reviewing legal expense accounts. (Ref: Para. A20)
- 10. If the auditor assesses a risk of material misstatement regarding litigation or claims that have been identified, or when audit procedures performed indicate that other material litigation or claims may exist, the auditor shall, in addition to the procedures required by other ISAs (NZ), seek direct communication with the entity's external legal counsel. The auditor shall do so through a letter of enquiry, prepared by management and sent by the auditor, requesting the entity's external legal counsel to communicate directly with the auditor. If law, regulation or the respective legal professional body prohibits the entity's external legal counsel from communicating directly with the auditor, the auditor shall perform alternative audit procedures. (Ref: Para. A21–A25)

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<sup>3</sup> ISA (NZ) 705 (Revised), *Modifications to the Opinion in the Independent Auditor's Report*.

### **In-house and/or External Legal Counsel**

NZ10.1 Where in-house legal counsel has the primary responsibility for litigation and claims and is in the best position to corroborate representations from management and those charged with governance, the auditor shall endeavour to obtain a representation letter from the in-house legal counsel, seeking information similar to that sought from the entity's external legal counsel. (Ref: Para. NZ A24.1–NZ A24.2)

11. If:

- (a) management refuses to give the auditor permission to communicate or meet with the entity's legal counsel, or the entity's legal counsel refuses to respond appropriately to the letter of enquiry, or is prohibited from responding (Ref: Para. NZ A24.3 – NZ A24.4); and
- (b) the auditor is unable to obtain sufficient appropriate audit evidence by performing alternative audit procedures (Ref: Para. NZ A24.5–NZ A24.6),

the auditor shall modify the opinion in the auditor's report in accordance with ISA (NZ) 705 (Revised) (Ref: Para. NZ A24.7).

### *Written Representations*

12. [Amended by the NZAuASB.]

NZ12.1 The auditor shall request those charged with governance to provide written representations that all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to the auditor and accounted for and disclosed in accordance with the applicable financial reporting framework.

### **Segment Information**

- 13. The auditor shall obtain sufficient appropriate audit evidence regarding the presentation and disclosure of segment information in accordance with the applicable financial reporting framework by: (Ref: Para. A26)
  - (a) Obtaining an understanding of the methods used by management in determining segment information, and: (Ref: Para. A27)
    - (i) Evaluating whether such methods are likely to result in disclosure in accordance with the applicable financial reporting framework; and
    - (ii) Where appropriate, testing the application of such methods; and
  - (b) Performing analytical procedures or other audit procedures appropriate in the circumstances.

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## Application and Other Explanatory Material

### Inventory

#### *Attendance at Physical Inventory Counting (Ref: Para. 4(a))*

A1. Management ordinarily establishes procedures under which inventory is physically counted at least once a year to serve as a basis for the preparation of the financial statements and, if applicable, to ascertain the reliability of the entity's perpetual inventory system.

~~NZA1.1 It is the responsibility of management, with the oversight of those charged with governance of an entity, to adopt policies and procedures to identify, evaluate, record and report on the outcome of any material litigation and claims. However, since the factors that would be considered in the accounting for and reporting of litigation and claims are within the direct knowledge and control of the management of an entity, management is the primary source of information. Ordinarily, the auditor would seek audit evidence from different sources to corroborate management's assertions.~~

A2. Attendance at physical inventory counting involves:

- Inspecting the inventory to ascertain its existence and evaluate its condition, and performing test counts;
- Observing compliance with management's instructions and the performance of procedures for recording and controlling the results of the physical inventory count; and
- Obtaining audit evidence as to the reliability of management's count procedures.

These procedures may serve as tests of controls or substantive procedures depending on the auditor's risk assessment, planned approach and the specific procedures carried out.

A3. Matters relevant in planning attendance at physical inventory counting (or in designing and performing audit procedures pursuant to paragraphs 4–8 of this ISA (NZ)) include, for example:

- The risks of material misstatement related to inventory.
- The nature of the internal control related to inventory.
- Whether adequate procedures are expected to be established and proper instructions issued for physical inventory counting.
- The timing of physical inventory counting.
- Whether the entity maintains a perpetual inventory system.
- The locations at which inventory is held, including the materiality of the inventory and the risks of material misstatement at different locations, in deciding at which locations attendance is appropriate.
- Whether the assistance of an auditor's expert is needed. ISA (NZ) 620<sup>4</sup> deals with the use of an auditor's expert to assist the auditor to obtain sufficient appropriate audit evidence.

<sup>4</sup> ISA (NZ) 620, *Using the Work of an Auditor's Expert*.

Evaluate Management's Instructions and Procedures (Ref: Para. 4(a)(i))

A4. Matters relevant in evaluating management's instructions and procedures for recording and controlling the physical inventory counting include whether they address, for example:

- The application of appropriate controls, for example, collection of used physical inventory count records, accounting for unused physical inventory count records, and count and re-count procedures.
- The accurate identification of the stage of completion of work in progress, of slow moving, obsolete or damaged items and of inventory owned by a third party, for example, on consignment.
- The procedures used to estimate physical quantities, where applicable, such as may be needed in estimating the physical quantity of a coal pile.
- Control over the movement of inventory between areas and the shipping and receipt of inventory before and after the cutoff date.

Observe the Performance of Management's Count Procedures (Ref: Para. 4(a)(ii))

A5. Observing the performance of management's count procedures, for example those relating to control over the movement of inventory before, during and after the count, assists the auditor in obtaining audit evidence that management's instructions and count procedures are adequately designed and implemented. In addition, the auditor may obtain copies of cutoff information, such as details of the movement of inventory, to assist the auditor in performing audit procedures over the accounting for such movements at a later date.

Inspect the Inventory (Ref: Para. 4(a)(iii))

A6. Inspecting inventory when attending physical inventory counting assists the auditor in ascertaining the existence of the inventory (though not necessarily its ownership), and in identifying, for example, obsolete, damaged or ageing inventory.

Perform Test Counts (Ref: Para. 4(a)(iv))

A7. Performing test counts, for example by tracing items selected from management's count records to the physical inventory and tracing items selected from the physical inventory to management's count records, provides audit evidence about the completeness and the accuracy of those records.

A8. In addition to recording the auditor's test counts, obtaining copies of management's completed physical inventory count records assists the auditor in performing subsequent audit procedures to determine whether the entity's final inventory records accurately reflect actual inventory count results.

*Physical Inventory Counting Conducted Other than at the Date of the Financial Statements*  
(Ref: Para. 5)

A9. For practical reasons, the physical inventory counting may be conducted at a date, or dates, other than the date of the financial statements. This may be done irrespective of whether management determines inventory quantities by an annual physical inventory

counting or maintains a perpetual inventory system. In either case, the effectiveness of the design, implementation and maintenance of controls over changes in inventory determines whether the conduct of physical inventory counting at a date, or dates, other than the date of the financial statements is appropriate for audit purposes. ISA (NZ) 330 establishes requirements and provides guidance on substantive procedures performed at an interim date.<sup>5</sup>

A10. Where a perpetual inventory system is maintained, management may perform physical counts or other tests to ascertain the reliability of inventory quantity information included in the entity's perpetual inventory records. In some cases, management or the auditor may identify differences between the perpetual inventory records and actual physical inventory quantities on hand; this may indicate that the controls over changes in inventory are not operating effectively.

A11. Relevant matters for consideration when designing audit procedures to obtain audit evidence about whether changes in inventory amounts between the count date, or dates, and the final inventory records are properly recorded include:

- Whether the perpetual inventory records are properly adjusted.
- Reliability of the entity's perpetual inventory records.
- Reasons for significant differences between the information obtained during the physical count and the perpetual inventory records.

*Attendance at Physical Inventory Counting Is Impracticable (Ref: Para. 7)*

A12. In some cases, attendance at physical inventory counting may be impracticable. This may be due to factors such as the nature and location of the inventory, for example, where inventory is held in a location that may pose threats to the safety of the auditor. The matter of general inconvenience to the auditor, however, is not sufficient to support a decision by the auditor that attendance is impracticable. Further, as explained in ISA (NZ) 200<sup>6</sup> the matter of difficulty, time, or cost involved is not in itself a valid basis for the auditor to omit an audit procedure for which there is no alternative or to be satisfied with audit evidence that is less than persuasive.

A13. In some cases where attendance is impracticable, alternative audit procedures, for example inspection of documentation of the subsequent sale of specific inventory items acquired or purchased prior to the physical inventory counting, may provide sufficient appropriate audit evidence about the existence and condition of inventory.

A14. In other cases, however, it may not be possible to obtain sufficient appropriate audit evidence regarding the existence and condition of inventory by performing alternative audit procedures. In such cases, ISA (NZ) 7055 (Revised) requires the auditor to modify the opinion in the auditor's report as a result of the scope limitation.<sup>7</sup>

<sup>5</sup> ISA (NZ) 330, paragraphs 22–23.

<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 A548.

<sup>7</sup> ISA (NZ) 705 (Revised), paragraph 13.

*Inventory under the Custody and Control of a Third Party*

Confirmation (Ref: Para. 8(a))

A15. ISA (NZ) 505<sup>8</sup> establishes requirements and provides guidance for performing external confirmation procedures.

Other Audit Procedures (Ref: Para. 8(b))

A16. Depending on the circumstances, for example where information is obtained that raises doubt about the integrity and objectivity of the third party, the auditor may consider it appropriate to perform other audit procedures instead of, or in addition to, confirmation with the third party. Examples of other audit procedures include:

- Attending, or arranging for another auditor to attend, the third party's physical counting of inventory, if practicable.
- Obtaining another auditor's report, or a service auditor's report, on the adequacy of the third party's internal control for ensuring that inventory is properly counted and adequately safeguarded.
- Inspecting documentation regarding inventory held by third parties, for example, warehouse receipts.
- Requesting confirmation from other parties when inventory has been pledged as collateral.

**Litigation and Claims**

*Completeness of Litigations and Claims* (Ref: Para. 9)

A17. Litigation and claims involving the entity may have a material effect on the financial statements and thus may be required to be disclosed or accounted for in the financial statements.

NZA17.1 It is the responsibility of management, with the oversight of those charged with governance of an entity, to adopt policies and procedures to identify, evaluate, record and report on the outcome of any material litigation and claims. However, since the factors that would be considered in the accounting for and reporting of litigation and claims are within the direct knowledge and control of the management of an entity, management is the primary source of information. Ordinarily, the auditor would seek audit evidence from different sources to corroborate management's assertions.

A18. In addition to the procedures identified in paragraph 9, other relevant procedures include, for example, using information obtained through risk assessment procedures carried out as part of obtaining an understanding of the entity and its environment to assist the auditor to become aware of litigation and claims involving the entity.

NZA18.1 The procedures identified in paragraphs 10 and A18 would ordinarily include the following:

<sup>8</sup> ISA (NZ) 505, *External Confirmations*.

- Reviewing and discussing with management the procedures within the entity's internal control structure for identifying and recording litigation and claims and bringing them to the attention of management;
- Reviewing and discussing with management the procedures within the entity's internal control structure for the identification, control and recording of litigation and claims and associated revenues and expenses in appropriate accounts; and
- Obtaining and discussing with management:
  - (i) A list of litigation and claims, including a description of the matters and an estimate of their likely financial consequences; and
  - (ii) An analysis identifying litigation and claims.

NZA18.2 Audit procedures that are undertaken for different purposes might also identify litigation and claims. Such procedures include:

- Examining contracts, loan agreements, leases, insurance policies and claims, and other correspondence;
- Reading minutes of meetings of the audit committee, shareholders and appropriate committees;
- Obtaining information concerning guarantees from bank confirmations; and
- Enquiries of management and other employees of the entity.

A19. Audit evidence obtained for purposes of identifying litigation and claims that may give rise to a risk of material misstatement also may provide audit evidence regarding other relevant considerations, such as valuation or measurement, regarding litigation and claims. ISA (NZ) 540<sup>9</sup> establishes requirements and provides guidance relevant to the auditor's consideration of litigation and claims requiring accounting estimates or related disclosures in the financial statements.

*Reviewing Legal Expense Accounts (Ref: Para. 9(c))*

A20. Depending on the circumstances, the auditor may judge it appropriate to examine related source documents, such as invoices for legal expenses, as part of the auditor's review of legal expense accounts.

*Communication with the Entity's External Legal Counsel (Ref: Para. 10–11)*

A21. Direct communication with the entity's external legal counsel assists the auditor in obtaining sufficient appropriate audit evidence as to whether potentially material litigation and claims are known and estimates of the financial implications, including costs, are reasonable.

A22. In some cases, the auditor may seek direct communication with the entity's external legal counsel through a letter of general enquiry. For this purpose, a letter of general enquiry requests the entity's external legal counsel to inform the auditor of any litigation and claims that the counsel is aware of, together with an assessment of the outcome of the litigation and claims, and an estimate of the financial implications,

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<sup>9</sup> ISA (NZ) 540 (Revised), *Auditing Accounting Estimates, and Related Disclosures*.

including costs involved.

A23. If it is considered unlikely that the entity's external legal counsel will respond appropriately to a letter of general enquiry, for example if the professional body to which the external legal counsel belongs prohibits response to such a letter, the auditor may seek direct communication through a letter of specific enquiry. For this purpose, a letter of specific enquiry includes:

- (a) A list of litigation and claims;
- (b) Where available, management's assessment of the outcome of each of the identified litigation and claims and its estimate of the financial implications, including costs involved; and
- (c) A request that the entity's external legal counsel confirm the reasonableness of management's assessments and provide the auditor with further information if the list is considered by the entity's external legal counsel to be incomplete or incorrect.

NZA23.1 An example of a letter of specific enquiry is included in [NZ] Appendix 1.

NZA23.2 An auditor may in some circumstances request that management send a letter of enquiry to the entity's legal counsel who are not identified as currently handling the entity's litigation and claims. For example when the entity has changed legal counsel on a particular matter, or when legal counsel engaged by the entity has resigned, the auditor would consider the need for enquiries concerning the reasons for the change or resignation.

A24. In certain circumstances, the auditor also may judge it necessary to meet with the entity's external legal counsel to discuss the likely outcome of the litigation or claims. This may be the case, for example, where:

- The auditor determines that the matter is a significant risk.
- The matter is complex.
- There is disagreement between management and the entity's external legal counsel.

Ordinarily, such meetings require management's permission and are held with a representative of management in attendance.

*In house and/or External Legal Counsel (Ref: Para. NZ 10.1)*

NZA24.1 If both in-house and external legal counsel are involved in advising the entity on the same litigation and claims, the auditor would ordinarily seek a letter of enquiry from the legal counsel with the primary responsibility for that matter. However, there may be circumstances where the in-house legal counsel has primary responsibility, but the matter has involved substantial participation by an external legal counsel, and is of such significance that the auditor would consider obtaining a letter of enquiry from the external legal counsel to determine that their opinion does not differ materially from that of the in-house legal counsel.

NZ A24.2 In circumstances where both in-house and external legal counsel have devoted substantial attention to litigation and claims involving the entity and primary responsibility rests with

the external legal counsel, evidence obtained from an in-house legal counsel is not an adequate substitute for any information that the external legal counsel may refuse to furnish.

*Legal Counsel's Inability to Respond Comprehensively or Limitations in a Response (Ref: Para 11(a))*

NZA24.3 If a response is not received from the entity's legal counsel, or the response received is incomplete, the auditor would ordinarily consider:

- (a) requesting management to contact the entity's legal counsel to either seek a complete answer to the original request, or an explanation for the lack of, or limitation in, a response, which ought to be sent directly to the auditor; or
- (b) making arrangements to discuss with management or the entity's legal counsel the reasons for the lack of, or limitation in, a response.

*Alternative Audit Procedures (Ref. Para. 11(b))*

NZA24.4 Where the auditor has not obtained sufficient appropriate audit evidence as to a material financial statement assertion regarding litigation and claims, under ISA (NZ) 330, the auditor needs to consider whether alternative audit procedures can provide further audit evidence. Alternative audit procedures may include:

- (a) further enquiries of management, about for instance the processes, procedures and assumptions they implement, adopt or make to ensure litigation and claims are recognised and disclosed in accordance with the applicable financial reporting framework;
- (b) where possible, making arrangements to discuss litigation and claims with management and the entity's legal counsel;
- (c) further review of documents in management's possession concerning litigation and claims, including the entity's board minutes; and
- (d) further examination of accounts rendered by the entity's external legal counsel.

*Other Audit Reporting Considerations (Ref: Para. 11)*

NZA24.5 In those circumstances where, due to uncertainties, the entity's legal counsel is unable to form a conclusion to corroborate representations from management and those charged with governance, the auditor needs to consider the effect on the auditor's report arising from the extent of disclosure of the uncertainty in the financial statements:

- (a) where the auditor considers that the disclosure of the uncertainty in the financial statements is adequate, the auditor needs to consider including an Emphasis of Matter paragraph, in accordance with ISA (NZ) 706 (Revised), or
- (b) if in the auditor's opinion the disclosure of the uncertainty is inadequate or unreliable, a modified opinion needs to be expressed in accordance with ISA (NZ) 705 (Revised).

A25. In accordance with ISA (NZ) 700 (Revised),<sup>10</sup> the auditor is required to date the

<sup>10</sup> ISA (NZ) 700 (Revised), *Forming an Opinion and Reporting on Financial Statements*, paragraph 494.

auditor's report no earlier than the date on which the auditor has obtained sufficient appropriate audit evidence on which to base the auditor's opinion on the financial statements. Audit evidence about the status of litigation and claims up to the date of the auditor's report may be obtained by enquiry of management, including in-house legal counsel, responsible for dealing with the relevant matters. In some instances, the auditor may need to obtain updated information from the entity's external legal counsel.

#### **Segment Information (Ref: Para. 13)**

A26. Depending on the applicable financial reporting framework, the entity may be required or permitted to disclose segment information in the financial statements. The auditor's responsibility regarding the presentation and disclosure of segment information is in relation to the financial statements taken as a whole. Accordingly, the auditor is not required to perform audit procedures that would be necessary to express an opinion on the segment information presented on a stand alone basis.

#### *Understanding of the Methods Used by Management (Ref: Para. 13(a))*

A27. Depending on the circumstances, examples of matters that may be relevant when obtaining an understanding of the methods used by management in determining segment information and whether such methods are likely to result in disclosure in accordance with the applicable financial reporting framework include:

- Sales, transfers and charges between segments, and elimination of inter-segment amounts.
- Comparisons with budgets and other expected results, for example, operating profits as a percentage of sales.
- The allocation of assets and costs among segments.
- Consistency with prior periods, and the adequacy of the disclosures with respect to inconsistencies.

**[NZ] Appendix 1**

(Ref: NZA23.1)

*This example letter relates to specific enquiry directed to the entity's external legal counsel, but may be adapted, as appropriate, to specific enquiry directed to the entity's internal legal counsel.*

**Example of a Letter of Specific Enquiry to External Legal Counsel (For an Audit Client)**

(Client Letterhead)

(Date)

(Name and Address of External Legal Counsel)

Dear ...

In connection with the preparation and audit of the financial statements of (name of company) (and the following subsidiaries and/or divisions) for the reporting period ended (date) we request that you provide to this company, at our cost, the following information:

1 Confirmation that you are acting for the company (and the above-named subsidiaries and/or divisions) in relation to the matters mentioned below and that the directors' description and estimates of the amounts of the financial settlement (including costs and disbursements) which might arise in relation to those matters are in your opinion reasonable.

Name of Company (subsidiary or division)	Directors' Description of Matter (including current status)	Directors' Estimate of the Financial Settlement (inclusive of costs and disbursements)
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2 Should you disagree with any of the information included in 1 above, please comment on the nature of your disagreement.

3 In addition to the above, a list of open files that you maintain in relation to the company (and the above mentioned subsidiaries and/or divisions).

4 In relation to the matters identified under 2 and 3 above, we authorise you to discuss these matters with our auditor (name and address), if requested, and at our cost.

It is understood that:

- (a) the company (and the above-named subsidiaries and/or divisions) may have used other legal counsel in certain matters;
- (b) the information sought relates only to information relating to litigation and claims referred to your firm (including branches or subsidiaries) which were current at any

time during the above-mentioned reporting period, or have arisen since the end of the reporting period and up to the date of your response;

- (c) unless separately requested in writing, you are not responsible for keeping the auditors advised of any changes after the date of your reply;
- (d) you are only required to respond on matters referred to you as legal counsel for the company (and the above-mentioned subsidiaries and/or divisions), not on those within your knowledge solely because of the holding of any office as director, secretary or otherwise of the company (and the above-mentioned subsidiaries and/or divisions) by a consultant, partner or employee of your firm; and
- (e) your reply is sought solely for the information of, and assistance to, this company in connection with the audit of, and report with respect to, the financial statements of the company (and the above-mentioned subsidiaries and/or divisions) and will not be quoted or otherwise referred to in any financial statements or related documents of the company (and the above-mentioned subsidiaries and/or divisions) nor will it be furnished to any governmental agency or other person, subject to specific legislative requirements, without the prior written consent of your firm.

Your prompt assistance in this matter will be appreciated. If you are unable to confirm or provide the information requested above, please advise us and our auditor the reasons for any limitation or impediment to fulfilling this request.

Please forward a signed copy of your reply directly to our auditors, (name) at (address), by (date).

Yours faithfully,

(Signature and Title of client)

## **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) 501, *Audit Evidence – Specific Considerations for Selected Items*.

This standard is the New Zealand equivalent of International Standard on Auditing 501, *Audit Evidence – Specific Considerations for Selected Items*, 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) 501 *Audit Evidence – Specific Considerations for Selected Items* 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 501, *Audit Evidence – Specific Considerations for Selected Items*, issued by the International Auditing and Assurance Standards Board.

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”.

The following requirement is additional to ISA 501. It has also been added to ASA 501:

- Where in-house legal counsel has the primary responsibility for litigation and claims and is in the best position to corroborate management’s representations, the auditor shall endeavour to obtain a representation letter from the in-house legal counsel, seeking information similar to that sought from the entity’s external legal counsel. (Ref: Para. NZ10.1.)
- References to “management” and “those charged with governance” have been amended in the ISAs (NZ) because the statutory responsibility for the preparation of the financial statements rests with those charged with governance. The ISAs require the auditor to obtain written representations from management. The ISAs (NZ) require written representations from those charged with governance. Paragraphs where references to “management” have been amended have been labelled as NZ paragraphs.

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

Compliance with this ISA (NZ) enables compliance with ISA 501.

## Comparison with Australian Auditing Standards

In Australia the Australian Auditing and Assurance Standards Board (AUASB) has issued Australian Auditing Standard ASA 501 *Audit Evidence – Specific Considerations for Inventory and Segment Information* and ASA 502 *Audit Evidence – Specific Considerations for Litigation and Claims*.

ASA 501 conforms with the Inventory and Segment Information sections (paragraphs 1–8, 13, A1–A16 and A26–A27) of ISA 501. The other paragraphs of ISA 501 (paragraphs 1–3, 9–12 and A17–A25) relating to Litigation and Claims are incorporated into ASA 502.

The AUASB decided to continue to issue ASA 502 as a separate Auditing Standard, in the same way as the structure of the previous Australian standards. Paragraphs have therefore been renumbered in ASA 502.

The following requirements are additional to ISA 501 and ISA (NZ) 501:

- If a response from the entity’s external or internal legal counsel contains a material disagreement with management’s original evaluation of a particular matter, the auditor shall seek discussions with management and the entity’s legal counsel, unless management subsequently agrees with the legal counsel’s evaluation. (Ref: ASA 502, para. Aus 5.2)
- The auditor shall enquire of management about new litigation and claims referred to the entity’s legal counsel subsequent to the date of the request for a letter of enquiry to the entity’s legal counsel and prior to signing the auditor’s report. (Ref: ASA 502, para. Aus 6.1)
- If audit procedures lead to the discovery of matters of a legal nature not previously identified by management, the auditor shall consider the impact of each of the matters on the financial report. (Ref: ASA 502, para. Aus 6.2)

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## History of Amendments

### Table of instruments – ISA (NZ) 501

This table lists the instruments amending this standard.

Instrument	Date made	Application date

## Minimum Legislative Information

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**Consolidated version** No

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**Replacement empowering Act and provision**

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