Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Proposed amendments for audits of less complex entities

Deep dive

4 September 2026

Presenters:

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Agenda

Why we are consulting

Proposed NZ additions for service organisations

- Why we are proposing domestic amendments
- How we understand controls reports are used in practice
- What we are proposing
- Benefits and costs
- Application date
- Discussion

Agenda

International proposals – maintenance of ISA for Less Complex Entities

- We propose to adopt international proposals to maintain the ISA for LCE
- Revisions to the fraud auditing standard ISA (NZ) 240
- Revisions to the going concern auditing standard ISA (NZ) 570
- Part A exclusions
- Potential benefits and costs

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Our purpose

Promoting trust and confidence, transparency and accountability through high-quality external reporting and assurance.

What we deliver

Reporting strategies and frameworks

Financial reporting standards

Climate standards

Auditing and assurance standards

Who standards apply to is determined by legislation

What is in the standard is determined by the XRB

Our strategy

Internationally aligned, locally relevant

Our strategic priorities

Fit for purpose

Supporting adoption and implementation

Integrated reporting

Public benefit entities

Poll Questions 1

- What's your background?
- If you are an auditor – have you started to adopt the ISA (NZ) for LCE?
- Have you read the exposure draft and consultation document?

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Why are we consulting

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matters we are consulting on

New Zealand specific amendments

Enabling auditors to use controls reports as audit evidence, where appropriate.

International proposals to maintain the standard

Keeping the ISA for LCE aligned with recent changes to international auditing standards, while preserving its proportionate nature

Proposed New Zealand amendments

Part 3 of the consultation document

Use of service organisations

What is a service organisation?

A third-party organisation (or segment of a third-party organisation) that provides services to user entities that are relevant to a user entity's process to prepare its financial statements

Use is on the rise

Outsourcing of business functions is increasing, including by LCEs

Why are we proposing domestic amendments?

CURRENTLY SUPPORTED

Controls reports may provide information for:

- Obtaining an understanding of the user entity's system of internal control

CURRENTLY NOT SUPPORTED

Controls reports as audit evidence for:

- Design and implementation, or
- Operating effectiveness of controls at the service organisation

How we understand controls reports are used in practice

Understanding the services provided

Already permitted — as information for the auditor in obtaining an understanding of the user entity's system of internal control

Evidence over assertions

Design, implementation and operating effectiveness of controls

Use of a type 1 or type 2 controls report: what's proposed

1. LCE uses a service organisation
2. Auditor chooses to obtain a controls report
3. Auditor's enquires of management
4. Auditor evaluates controls report
5. Auditor uses it as audit evidence

This is a high level overview, please refer to the exposure draft (ED) for more detail

Poll Questions 2

- **Do you agree with our understanding and our view on the necessary amendments?**
- **Do you agree the proposals are appropriately scoped and proportionate?**
- **Do you agree that the requirements and Essential Explanatory Material are clear and workable?**

If you have any other comments, please let us know in chat or email
assurance@xrb.govt.nz

Benefits and costs

Potential benefits identified

- better reflects the New Zealand environment and promotes consistency in practice
- supports greater adoption of the ISA (NZ) for LCE
- improves audit efficiency without reducing audit quality

Potential costs identified

- implementation costs for audit firms
- reduced alignment with the international standard

XRB view: on balance, the benefits outweigh the costs and the amendments are targeted and proportionate, supporting the public interest

Poll Question 3

- **Do you agree that the expected benefits of the proposed amendments outweigh the implementation costs and other practical challenges?**

If you have any other benefits or costs we should consider, or other comments, please let us know in our discussion, the chat box or email assurance@xrb.govt.nz

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We propose an application date as soon as possible

Proposed application date

1 March 2026

Accounting periods beginning on or after this date.

Why this date?

- the issue is viewed as a barrier to adoption
- earlier application supports firms preparing methodologies and tools
- building the requirements in now may avoid later rework

Poll Question 4

- **Do you agree with an application date for periods beginning on or after 1 March 2026?**

Discussion on proposed domestic amendments

- **Do you agree with the proposed domestic amendments?**
- **Are amendments needed?**
- **Are amendments appropriately scoped and proportionate?**
- **Any other benefits or costs?**

If you have any other comments, please let us know in the chat box
or email assurance@xrb.govt.nz

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International Proposals

Maintenance of ISA for Less Complex Entities

We propose to adopt international proposals to maintain the ISA for less complex entities

Targeted updates following recent revisions to full ISAs

- Fraud – ISA 240 (Revised)
- Going Concern – ISA 570 (Revised 2024)
- Listed Entity and Public Interest Entity (Narrow scope amendments)
- Experts (Narrow scope amendments)

Tailored and proportionate

Revisions to the fraud auditing standard ISA (NZ) 240

Professional scepticism

Clarifies auditor’s responsibilities

Ongoing communication

Fraud lens on risk identification and assessment

Robust work effort when fraud identified

Audit documentation

Key Proposal: Revisions to the fraud auditing standard ISA (NZ) 240

The presumption of risk of material misstatement due to fraud in revenue recognition

Public interest issue

Why? Not clear when it may or may not be appropriate to rebut the presumption of fraud

Strengthened requirement

Auditor to "determine" revenue streams taking into account fraud risk factors

Why? Management override of controls, limited segregation

EEM Proportionate to LCE

Why? Single, simple or straightforward revenue streams

Key Proposal: Revisions to the fraud auditing standard ISA (NZ) 240

Because of the typical nature and circumstances of an LCE, including relevant qualitative characteristics, the entity's revenue recognition often may relate to a simple type of revenue or simple revenue transactions (e.g., leasehold revenue from a single rental property). This together with the auditor's consideration of fraud risk factors and evaluating whether one or more fraud risk factors are present may affect the auditor's determination in accordance with paragraph 6.4.2. Depending on the circumstances, the auditor may conclude that fraud risks factors are not significant and, therefore, may rebut ~~T~~the presumption that there are risks of *material misstatement due to* fraud *related to*~~in~~ revenue recognition ~~may be rebutted~~. ~~*For example, the auditor may conclude, based on the audit evidence obtained, that there is no risk of material misstatement due to fraud relating to revenue recognition in the case where there is a single type of simple revenue transaction, for example, leasehold revenue from a single rental property.*~~

Poll question 5

Is this approach proportionate for the context and nature of an LCE?

a) Yes, appropriately reflects the nature and context of an LCE

b) No, over emphasises the likelihood of rebutting the presumption for an LCE

c) No, under emphasises the likelihood of rebutting the presumption for an LCE

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Revisions to the going concern auditing standard ISA (NZ) 570

- Enhanced framework to design and perform robust risk assessment procedures
- Strengthened the auditors evaluation of management's assessment
- Strengthened communication and reporting on matters related to going concern

Key Proposal: Revisions to the going concern auditing standard ISA (NZ) 570

Auditor's evaluation of management's assessment of going concern

12 months from *approval of financial statements*

Updated the requirement to evaluate management's assessment including significant judgements

Procedures not limited to enquiry and discussion

EEM Proportionate to LCE

To recognise the informal nature of management's assessment

Poll question 6

Is this approach proportionate for the context and nature of an LCE?

a) Yes

b) No, procedures required should be limited to enquiry

c) No, the EEM does not reflect the context and nature of an LCE

Select all that are applicable

Part A exclusions

Listed entity to Publicly traded entity

- Term updated as part of the Listed Entity and Public Interest narrow scope amendment project
- Proposed to replace “listed entity” with “publicly traded entity”
- NZ context, may include entities on Catalyst or Unlisted Exchanged
- No compelling reason identified

Poll question 7

Do you agree with updating the term “listed entity” with “publicly traded entity?

a) Yes

b) No

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Proposed application date

Will not become applicable before 15 December 2028

Poll question 8

Do you agree an implementation period of approximately 18 months following approval of the proposed revised standard is sufficient?

a) Yes

b) No

Potential benefits and costs

Potential Benefits	Global audit quality and comparability
	Enhanced confidence in assurance outcomes
	Proportionate and scalable
	Efficiency from leveraging global due process
Potential Costs	Implementation and methodology updates for audit firms
	Proportionality challenges for smaller firms

Poll question 9

Do you agree that the expected benefits of the proposed amendments, outweigh the implementation costs and other practical challenges?

a) Yes

b) No

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Have you implemented ISA (NZ) for Less Complex Entities?

Contact us
assurance@xrb.govt.nz

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Pātai

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Thank you

Mā te wā