



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Proposed amendments for audits of less complex entities

Deep dive

4 September 2026

Presenters:

Bruce McNiven

Enablement Manager

Lisa Thomas

Senior Project Manager

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





Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

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



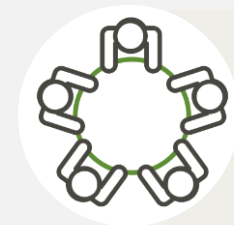
Fit for purpose



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?**



Why are we consulting

2

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

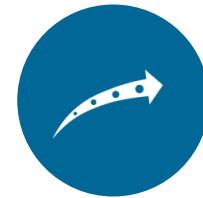


Use of service organisations



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



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

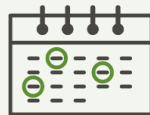


We propose an application date as soon as possible

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



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 ~~the~~ presumption that there are risks of material misstatement due to fraud related to 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



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



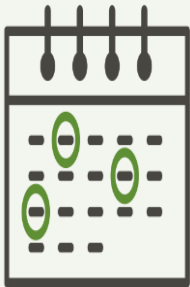
Poll question 7

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

- a) Yes
- b) No



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





Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD



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



Contact us

assurance@xrb.govt.nz



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Pātai
Questions?



Find out more

xrb.govt.nz



Follow us

linkedin.com/company/external-reporting-board



Contact us

assurance@xrb.govt.nz



Subscribe

xrb.govt.nz/sign-up



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD



Thank you
Mā te wā