



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

New Zealand Auditing and Assurance Standards Board

MEETING PACK

for

NZAuASB Board Meeting (PUBLIC)

Wednesday, 14 October 2026

1:15 pm (NZDT)

Held at:

Executive Boardroom, Precinct Flex

Level 10, 11 Britomart Place, Auckland 1010

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AGENDA

NZAUASB BOARD MEETING (PUBLIC)



Name:	New Zealand Auditing and Assurance Standards Board
Date:	Wednesday, 14 October 2026
Time:	1:15 pm to 4:30 pm (NZDT)
Location:	Executive Boardroom, Precinct Flex, Level 10, 11 Britomart Place, Auckland 1010
Committee Members:	Rebecca Palmer (Committee Chair), Darby Healey, Doug Niven, Michael Bradbury, Richard Kirkland, Todd Beardsworth, Vasana Vanpraseuth
Attendees:	Misha Pieters, Wendy Venter, John Kensington, Thinus Peyper, Sharon Walker, Lisa Thomas, Karen Tipper, Anna Herlender, Bruce McNiven, Catherine Thompson
Apologies:	Graeme Pinfold (Committee Chair)

1. Open Meeting (PRIVATE)
2. Standing Items (PRIVATE)
3. Update (PRIVATE)
4. Update (PRIVATE)
5. Board Management (PRIVATE)
6. Update (PRIVATE)
7. Discussions (PRIVATE)
8. Managed investment schemes guidance (PUBLIC)

8.1 Summary paper

1:15 pm (15 min)

Sharon Walker, Thinus Peyper

For Noting

Paper

Supporting Documents:

8.1.a 8.1 BMSP-MIS_10_2026.docx

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8.2 Issues paper

1:30 pm (15 min)

For Discussion

Paper

Supporting Documents:

8.2.a	8.2 Issues paper-MIS_10_2026.docx	11
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8.3 Valuation evidence guide - Project plan 1:45 pm (15 min)

For Noting

SUPPLEMENTARY

8.4 Draft valuation evidence guide 2:00 pm (15 min)

For Discussion

SUPPLEMENTARY

9. Less complex entities response (PUBLIC)

9.1 Summary paper 2:15 pm (10 min)

Lisa Thomas

For Noting

Paper

Supporting Documents:

9.1.a	9.1 BMSP ISA-for-LCE_10_2026.docx	16
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9.2 Draft response 2:25 pm (10 min)

For Decision

Paper

Supporting Documents:

9.2.a	9.2 Draft IAASB-Response-Form-Audits-LCE-Maintenance_10_2026.docx	24
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9.3 Developing CAS assessment 2:35 pm (15 min)

For Noting

SUPPLEMENTARY

9.4 Submissions received 2:50 pm (10 min)

For Noting

SUPPLEMENTARY

9.5 AFTERNOON TEA 3:00 pm (15 min)

10. Audit evidence and risk response (PUBLIC)

10.1 Summary paper 3:15 pm (5 min)

Karen Tipper

For Noting

Paper

Supporting Documents:

10.1.a	10.1 BMSP-AERR_10_26.docx	36
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10.2 Developing response issues

3:20 pm (10 min)

For Discussion

Paper

Supporting Documents:

10.2.a	10.2 Issues-Paper-AERR_10_2026.docx	39
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11. Sustainability assurance implementation (PUBLIC)

11.1 Summary paper

3:30 pm (10 min)

Anna Herlender

For Noting

Paper

Supporting Documents:

11.1.a	11.1 BMSP-Sustainability-assurance-implementation_10_2026.docx	44
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11.2 More complex illustrative assurance report

3:40 pm (15 min)

For Discussion

Paper

Supporting Documents:

11.2.a	11.2 More-complex-illustrative-assurance-report_10_2026.docx	50
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12. Technology (PUBLIC)

12.1 Summary paper

3:55 pm (10 min)

Lisa Thomas

For Noting

Paper

Supporting Documents:

12.1.a	12.1 BMSP-Technology-QM-guidance_10_2026.docx	59
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13. Modified audit reports (PUBLIC)

13.1 Summary paper

4:05 pm (5 min)

Bruce Mcniven

For Noting

Paper

Supporting Documents:

13.1.a 13.1 BMSP-modified-assurance-reports_10_2026.pdf

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13.2 Current and draft modified audit report policies

4:10 pm (5 min)

For Noting

SUPPLEMENTARY

14. Board Management (PRIVATE)

15. Close Meeting (PRIVATE)

15.1 Close

4:15 pm

For Noting

Next meeting: NZAuASB meeting - 3 Dec 2026, 9:00 am

NZAuASB Board meeting summary paper

Meeting date: 14 October 2026

Subject: **Managed investment schemes guidance**

Date: 30 September 2026

Prepared by: Thinus Peyper and Sharon Walker

Reviewed by: Misha Pieters

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda item objectives

1. The objectives of this agenda item are to update the NZAuASB on the managed investment schemes guidance workstreams and seek the Board's feedback on the draft valuation evidence guide, the scope of EG Au8, and the proposed approach to minimum control objectives. The Board is also asked to note the planned stakeholder engagement and next steps.

Background

2. At its August meeting, the NZAuASB discussed two related matters:
 - (a) **EG Au 8:** The Board noted concerns raised by industry that the revised draft of EG Au 8 appeared overly prescriptive. The NZAuASB discussed the approach to describing minimum control objectives. The NZAuASB recommended amending the control objectives and clarifying the scope of the guidance.
 - (b) **Valuation guidance:** The NZAuASB agreed to prioritise valuation guidance, undertake broad stakeholder engagement and target issue of the guidance in December 2026.
3. The NZAuASB discussed the risk of trans-Tasman divergence, because the projects may progress on different timelines. However, the longer-term objective remains converged trans-Tasman guidance where that guidance is proportionate and fit for purpose in New Zealand.
4. The AUASB considered the same matters at its August meeting. The AUASB supported retaining the term "minimum control objectives" because extant GS 007 has used this approach for over a decade, supporting consistency and comparability, and reducing assurance costs across the industry. A majority of AUASB members decided to delay issuing revised GS 007 to align with the timing of the issue of EG Au8 in New Zealand. They supported retaining an effective date, with the date to be decided by the new AUASB when it decides to issue the revised GS 007. The AUASB also agreed that guidance on the audit work on the valuation of unlisted investments in externally-managed managed investment schemes is a priority and that the matters relating to the fair value hierarchy disclosures be removed from the project scope.
5. The XRB and AUASB continue to collaborate and share developments, but the projects are progressing on different timelines. The XRB project is accelerated to support March 2027 reporting needs. Staff continue to seek alignment with AUASB developments where appropriate.

6. The XRB board was briefed at its August and September meetings and note the project direction, timing and trans-Tasman alignment considerations.

Project approach

7. Staff have progressed three connected workstreams:
 - **Valuation evidence guidance** – developing guidance to help auditors obtain sufficient appropriate audit evidence about the valuation of investments in unlisted investee funds. This is the highest-priority workstream and is targeted for issue in December 2026.
 - **EG Au 8 refinement** – continuing to refine EG Au 8 and its control objectives in parallel with the valuation guidance work. While staff are seeking to progress this work as quickly as possible, it is not constrained by the December valuation guidance timeline.
 - **Engagement and alignment** – engaging with auditors, industry participants, and the FMA to test proposals, obtain practical input, and manage stakeholder expectations.
8. The workstreams are interconnected and are summarised on one page in the appendix. The valuation guidance addresses sources of audit evidence related to valuation. The EG Au 8 workstream addresses the role of controls reports and related control objectives, including how controls reports may support audit evidence for the valuation assertion. The engagement and alignment workstream support both projects.

Valuation evidence guide

9. Staff have established a working group of practitioners to support development of the valuation evidence guidance. The updated project plan, included in the supplementary pack, identifies the working group members. Rebecca Palmer, deputy chair of the NZAuASB, chairs the group.
10. Since the August meeting, staff met separately with:
 - the New Zealand working group;
 - representatives from the managed investment scheme industry; and
 - the Financial Markets Authority.

Staff shared an early outline of the proposed guidance to obtain feedback on its scope, framework, and key messages before beginning detailed drafting.
11. The issues paper summarises key messages from this engagement.
12. A further working group meeting is scheduled for 5 October 2026. Staff will provide a verbal update at the Board meeting.

EG Au 8

13. Staff continue to refine EG Au 8 to:
 - (a) Clarify its application and scope in New Zealand
 - (b) Revise control objectives to address concerns about the perceived level of prescription
 - (c) Ensure the guide is technically accurate. This includes revising present tense statements that may imply requirements, aligning the text with recently revised standards where relevant, and updating the illustrative auditors' reports in Appendix 7.
14. Staff are still testing the control objectives with a subset of Board members with industry knowledge.

15. The issues paper identifies the key matters on which staff are seeking direction at this meeting.

Engagement and alignment

16. XRB and AUASB staff maintain regular touchpoints recognising the ongoing desire for convergence.
17. Although the projects are progressing to different timelines, both organisations continue to share developments and identify opportunities for alignment where appropriate.

Recommendations

18. The NZAuASB is asked to:
 - NOTE progress across the managed investment schemes guidance workstreams.
 - PROVIDE FEEDBACK on whether the draft valuation evidence guide:
 - appropriately balances practical direction with the challenges faced;
 - is appropriately principles-based and risk-responsive;
 - includes clear and useful key messages, a coherent four-stage framework and an effective worked example; and
 - omits any significant matters that should be addressed before wider stakeholder consultation.
 - PROVIDE FEEDBACK on the following matters relating to EG Au 8:
 - the proposed application and scope
 - on whether control objectives should be presented as minimum control objectives.

Next steps

19. Subject to feedback from the working group and the NZAuASB, staff will:
 - (a) Refine the staff working draft and engage with the FMA, managed investment schemes industry representatives, and the working group of practitioners.
 - (b) Coordinate with AUASB staff in developing the valuation evidence guidance.
 - (c) Present a revised draft of the valuation guidance for approval at the December meeting.
20. Subject to the Board's agreement, staff will:
 - Refine the proposed control objectives and seek targeted industry feedback.
 - Coordinate with AUASB staff when refining EG Au 8; and
 - Present a revised draft EG Au 8 for approval at the December meeting.

Material presented

- Board meeting summary paper
- Issues paper
- Updated project plan (Supplementary papers)
- Draft valuation evidence guide (Supplementary papers)

Appendix: Overall project workstreams

Work stream	Purpose	Key issues to resolve	Priority	Suggested progress path
Stream 1: Valuation audit guidance	Develop practical audit guidance on obtaining sufficient appropriate audit evidence for substantive testing of the fair value of investments in unlisted, externally Managed Investment Schemes, whether domestic or foreign.	Define realistic audit scenarios – what are the challenging circumstances that the auditor may face including: • Structure through which investments are made. • Domestic or foreign investee funds and the mix of investment types. • The availability of controls reports and financial statements. • The existence of reporting period mismatches. Describe the likely available information under each scenario and how the auditor may use that to build a cumulative body of evidence about the reasonableness of the fair value of the investment held at year-end.	1	• Establish a working group • Schedule 3 working group meetings • Develop a guidance outline for working group discussion • Draft guidance • Obtain stakeholder feedback
Stream 2: EG Au8 refinement	Refine the revised EG Au8 so it remains useful for user auditors and service auditors without over-prescribing control objectives or creating unintended expectations on industry.	Simplify and clarify where necessary the scope of EG Au8. Reassess Appendix 3, and how it connects with service organisation responsibilities and suitable criteria, including: • Remove or reallocate existing draft control objectives to fit the New Zealand model. • Reduce the level of detail in draft control objectives or consider a “comply or explain” style approach or drafting that down plays “minimum control objectives”. • Develop additional control objectives on New Zealand specific circumstances. • Develop and include control objectives relating to NAV calculations, unit pricing, distribution calculations, and performance fee calculations.	2	• Refine using industry feedback simultaneously with Stream 1. • Perform a gap analysis against global fund administrator controls reports • Obtain further stakeholder feedback
Stream 3: Engagement and alignment	Manage stakeholder expectations	Avoid overly complex drafts, manage scope and maintain longer-term convergence where fit-for-purpose in New Zealand. Avoid trying to solve all problems, managing scope creep	1	• Establish structured engagement with stakeholders • Balance views across the Tasman

Subject: Managed investment schemes issues paper

Introduction

1. This paper seeks the Board's direction on two connected workstreams:
 - **Part A Valuation evidence guidance:** Staff seek feedback on whether the draft appropriately balances the requirement to obtain sufficient appropriate audit evidence and practical limitations on access to information in New Zealand fund structures.
 - **Part B EG Au 8:** Staff seek the Board's agreement on the proposed application and scope, and whether the control objectives should be presented as minimum control objectives.

Part A: Valuation evidence guide

Background

2. The project responds to practical challenges auditors face when obtaining sufficient appropriate audit evidence about the valuation of investments in unlisted investee funds. Relevant information may be held by fund managers, administrators, custodians or other parties, may not be directly available to the investor fund auditor or may relate to a different reporting date.

Key themes from engagement and how they influenced the draft guide

3. Stakeholders expressed support for the XRB to develop this guidance. There was support for the scope to focus on indirect investments in externally managed funds.
4. Key points highlighted included:
 - (a) Investments in private assets and investments held through externally managed fund structures are increasing in New Zealand, creating practical challenges in obtaining sufficient appropriate audit evidence
 - (b) Clarifying what is being valued is fundamental. The auditor is auditing the fair value of the investor fund's interest in the investee fund and a key question is the extent to which information about underlying investments may be needed.
 - (c) The New Zealand environment requires a proportionate and practical response. Reporting-date differences, information held by third parties and limitations on direct access to information are common features of New Zealand fund structures.
 - (d) Stakeholders supported a principles-based and risk-responsive approach that starts with management's valuation process and the information available.
 - (e) Mixed views on the merit of including scenario-based examples and caution against guidance that could be seen as prescriptive.
5. Stakeholder feedback revealed differing views about the extent of audit work that may be necessary when an investor fund invests in another fund. These views shaped the drafts focus on the unit of account, risk assessment, the availability and reliability of information, and the cumulative body of audit evidence.
6. The guide is built around a four-stage framework:
 - understanding management's valuation process, governance and available information;
 - identifying and assessing risks of material misstatement;

- responding to assessed risks based on the information available; and
- evaluating the resulting body of audit evidence and concluding.

Start with management and the information available

7. Stakeholders emphasised that the auditor should first understand how management assessed the investment before acquisition and how management monitors it after acquisition. For externally managed funds, management may rely on initial due diligence, periodic monitoring, information received from the investee fund manager and governance or oversight arrangements. Management remains responsible for supporting the reported fair value and for understanding the information used to determine that value.
8. **Impact on the guide:** The guide starts with management's valuation process, governance, monitoring activities and available information as the foundation for risk assessment and the audit response.

Identify what is being valued

9. Stakeholders consistently identified the unit of account as fundamental. The investor fund auditor is auditing the fair value of the investor fund's interest in the investee fund, rather than directly auditing each underlying investment as though the investor fund held it itself.
10. **Impact on the guide:** The guide includes a financial reporting foundation explaining the unit of account and how information about underlying investments may support the valuation without changing the asset being audited.

Use a risk-based and principles-based approach

11. Stakeholders supported a decision tree and risk-factor approach. Views on scenarios were mixed because some stakeholders considered that scenarios could be interpreted as prescriptive.
12. **Impact on the guide:** The guide is structured around understanding, risk assessment, risk response and evaluation of evidence. The decision tree illustrates a thought process focussed on the information available. Rather than developing multiple scenarios, the draft includes one worked example to test whether the principles operate when private assets are material.

Build a cumulative body of audit evidence

13. Stakeholders highlighted a range of information that may contribute to the auditor's conclusion and noted that no single source of information is likely to be sufficient in all circumstances. Controls reports, audited financial statements, confirmations, valuation information, management monitoring activities and information obtained after an investee fund's reporting date may all contribute to the auditor's conclusion, depending on the circumstances. Reporting-date differences, information held by third parties, and limitations on access to information are common in New Zealand fund structures and require the auditor to exercise professional judgement when evaluating the relevance and reliability of available information.
14. **Impact on the guide:** The guide focuses on how different sources of information may corroborate or contradict one another and contribute to the cumulative body of audit evidence. It distinguishes between the role of controls reports in understanding and risk assessment and their use in responding to assessed risks. The guide also encourages auditors to consider what information could reasonably be available before concluding that an audit evidence limitation exists.

Private assets are a current New Zealand issue

15. Industry participants advised that significant investments in private assets are already occurring in New Zealand and that externally managed structures may create information asymmetry. Different types of private assets may also present different valuation challenges.

16. **Impact on the guide:** The guide includes a worked example involving an externally managed wholesale fund investing in private assets and incorporates considerations relevant to investments where valuation information may be less readily available.

Matter for Board discussion

17. The Board is asked to provide direction on whether the draft guide achieves an appropriate balance between two risks. Requiring routine access to, or direct audit of, underlying investments could be inconsistent with the unit of account and impose unnecessary cost. Conversely, accepting limited information flows too readily could result in auditors concluding that sufficient appropriate audit evidence cannot be obtained before considering all information that may reasonably be available.
18. Staff do not recommend that the investor fund auditor must routinely obtain full access to, or directly audit, every underlying investment held by an investee fund. That approach may be inconsistent with the unit of account and could result in unnecessary work and cost.
19. Equally, staff do not recommend that auditors can accept limited information flows or conclude too readily that sufficient appropriate audit evidence cannot be obtained. Management is responsible for supporting the reported fair value, and relevant information may be available through the investee fund, its manager, service providers or other parties.
20. Staff recommend a principles-based, risk-responsive approach where the auditor:
- starts with management's valuation process and the information available;
 - assesses the risks arising from the investment and its valuation;
 - evaluates how different sources of information and procedures contribute to the cumulative body of audit evidence;
 - undertakes procedures relating to underlying investments where appropriate; and
 - concludes on any remaining evidence limitations only after considering what further information could reasonably be obtained.

Questions for the NZAuASB

21. Does the Board agree that the draft guide strikes an appropriate balance between obtaining sufficient appropriate audit evidence and recognising practical limitations on access to information?
22. Does the Board agree that the guide is appropriately principles-based?
23. Are the key messages, the framework and worked example clear and useful for practitioners?
24. Does the draft omit any significant matters that staff should address before wider consultation?

Part B: EG Au8

Application and scope

25. Staff aim to clarify the application of EG Au 8 when a managed investment scheme invests in another fund and the investor fund's auditor uses a controls report as audit evidence.
26. ISA (NZ) 402 states, it does not apply to the audit of transactions arising from an entity's proprietary financial interests in other entities when those interests are accounted for and reported to interest holders.¹ However, stakeholders have indicated that a managed investment scheme auditor may use a controls report as a source of audit evidence about the valuation of an investment in another fund,

¹ ISA (NZ) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*, paragraph 5

particularly when pricing information is not publicly available. This may occur when a scheme invests in an externally managed fund that holds unlisted or private assets.

27. The use of a controls report may provide relevant information about the processes and controls supporting the valuation information prepared by the investee fund or its service providers.
28. Reference to “unitised funds” in describing the application of EG Au8 created confusion because investors in managed investment schemes in New Zealand invest in units.
29. Staff have worked to clarify the application of the guidance. The proposed clarification, tracking changes from extant EG Au8, aims to improve readability. Staff proposes splitting the paragraph.

- A. ISA (NZ) 402 does not apply to services provided by financial institutions which are limited to processing of transactions that are specifically authorised by the user entity². Therefore reports prepared under ISAE (NZ) 3402 are not usually necessary for banks processing clients’ account transactions or brokers processing clients’ securities transactions. Nor does ISA (NZ) 402 apply to transactions relating to financial interests in other entities when those interests are accounted for and reported to interest holders.³ Therefore, reports under ISAE (NZ) 3402 are not generally necessary for an investment in a managed fund ~~unitised funds or other investments of an entity~~ for which pricing information is ~~are~~ publicly available.
- B. However, ~~unitised funds or other investments that managed investment scheme~~ may itself be a user entity where it engages use a service organisations to provide investment management services, in which case it is appropriate for the service organisation to provide a type 1 or type 2 report. When a type 1 or type 2 report is available, it may provide information to support the valuation of an investment in a managed fund for which pricing information is not publicly available. In such circumstances, those arrangements are within scope of this Explanatory Guide. Unitised funds and uThe unit pricing of those ~~funds-managed funds~~ are addressed in the control objectives within this Explanatory Guide ~~only in the context of service organisations which provide investment management services to unitised funds.~~

30. Paragraph A recognises that a controls report may provide information about the controls supporting the valuation information prepared by the investee fund or its service providers.
31. Paragraph B recognises that a managed investment scheme may be a user entity if it engages a service organisation to perform services relevant to the preparation of the scheme’s financial statements.

Question for the NZAuASB

32. Does the Board agree that the redrafted paragraphs are sufficiently clear?

Control objectives

33. The approved project plan identified that some control objectives were described at too high a level which contributed to inconsistent interpretation, particularly the general IT controls in section G of Appendix 3.
34. Since EG Au8 was issued in 2013, industry practices, technology, service delivery models and regulatory expectations have evolved, including increased focus on valuation governance, cybersecurity, oversight of subservice organisations and controls relevant to financial reporting. Accordingly, Appendix 3 was revised to include:
 - Enhanced and modernised control objectives addressing General IT Controls.

² See ISA (NZ) 402, paragraph 5

³ See ISA (NZ) 402, paragraph 5

- A new “Property Investment Administration” section with the existing “Property Management” control objectives relocated to the “Asset Management” section.
 - New control objectives addressing valuation governance and methodology.
 - Enhanced control objectives addressing the monitoring of subservice organisations.
35. Industry feedback indicated that some of the proposed control objectives were overly prescriptive. Accordingly, staff have undertaken further refinement.
36. Staff reviewed each proposed control objective for its relevance to financial reporting, and simplified it where appropriate. The review focused on expressing the intended control outcome clearly, removing detailed requirements and examples from individual control objectives and, introducing conditional language where needed. Staff also added a new “Unit Pricing” section and established a separate “Valuation Governance and Methodology” section.
37. Staff continue to work with AUASB staff, XRB colleagues and NZAuASB members to refine the proposed control objectives. Staff are testing the objectives with a subset of Board members who have relevant industry knowledge. Once staff have developed a stable core set, we intend to undertake targeted industry consultation. The feedback will inform whether the control objectives should be presented as minimum control objectives or illustrative examples.

Matter for Board discussion

38. Appendix 3 is intended to identify control objectives commonly relevant to financial reporting for each investment management service. Describing these as minimum control objectives retains a common baseline for the outcomes that controls should achieve, while allowing service organisations to design controls for their circumstances. This baseline would support consistency, comparability and transparency across controls reports.
39. Presenting the objectives as examples may weaken the common baseline because service organisations could select different objectives for similar services. That variation could make controls reports harder for user entities and user auditors to compare. The risk is problematic for Type 1 and Type 2 reports, which meet the needs of multiple user entities (one to many) rather than the specific needs of one user entity.
40. Staff recommend retaining the term “minimum control objectives”, subject to industry support. This would support consistency, comparability and transparency across controls reports.

Questions for the NZAuASB

41. Does the Board agree with the proposed direction to maintain the term “minimum control objectives” subject to industry support?

NZAuASB Board meeting summary paper

Meeting date: 14 October 2026

Subject: **ISA (NZ) for LCE amendments consultation**

Date: 30 September 2026

Prepared by: Lisa Thomas and Bruce McNiven

Reviewed by: Misha Pieters

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda item objectives

1. The objectives of this agenda item are to ask the Board to:
 - (a) APPROVE the draft submission to the IAASB on proposed amendments to ISA for LCE;
 - (b) NOTE the update on feedback on the domestic proposals to ISA (NZ) for LCE; and
 - (c) NOTE the draft Consistency Accountability Statement assessment file note for the IAASB maintenance proposals.

Background

2. On 11 August 2026, we issued our consultation on proposed amendments for audits of less complex entities. We consulted on two matters:
 - (a) International proposals developed to maintain the ISA for LCE (referred to in this paper as the IAASB maintenance proposals) following revisions to the auditing standards on going concern, fraud, publicly traded entities and using the work of an expert.
 - (b) Targeted New Zealand specific amendments adapted from ISA (NZ) 402, Audit considerations relating to an entity using a service organisation, to enable auditors to use controls reports from service organisations as audit evidence in certain circumstances.
3. Outreach included a virtual deep dive attended by 17 participants, a community of practice event attended by practitioners, CAANZ, Audit Assistant and the Audit office, a [walk-through webcast](#) available on the dedicated [consultation website page](#), 2 LinkedIn posts and the [August audit and assurance alert](#).
4. We received two submissions from CA ANZ and Audit Assistant, and one survey response from Baker Tilly Staples Rodway.
5. Feedback received is summarised in the appendix. Copies of the written submissions are in the supplementary board pack should the board wish to read them. We thank those who provided feedback.
6. The consultation period closed on 25 September 2026.

7. Submissions to the IAASB maintenance proposals are due to the IAASB by 17 November 2026. We seek approval of the NZAuASB submission at this meeting.
8. Staff will present an analysis of feedback and any recommended changes to the domestic exposure at the NZAuASB's December meeting, and intend to request approval of the domestic amending standard for issue before the end of 2026.

Matters to consider

IAASB maintenance proposals

What we heard

9. Stakeholders were generally supportive of the proposed amendments. In particular, most stakeholders considered the key proposals relating to the auditor's evaluation of management's assessment of going concern, and the presumption of risk of material misstatement due to fraud in revenue recognition, to be proportionate for an LCE, and reflective of current practice. However, some stakeholders considered that enquiry alone should be sufficient when evaluating management's assessment of going concern and a small number felt the EEM¹ overemphasised rebutting the fraud presumption. Stakeholders recommended a more realistic and nuanced example to support more consistent application of the rebuttable presumption.
10. The ISA for LCE standard is drafted primarily from the perspective of audits of for-profit entities. However, in New Zealand, adoption of the ISA (NZ) for LCE, is expected to be applied by auditors of charities and public sector entities. Feedback from our outreach was to include more relevant examples for these sectors. Accordingly, the submission recommends a charity-based example of the rebuttable presumption.
11. We sought feedback on extending the exclusions in Part A of the standard from listed entities to publicly traded entities. No compelling reasons were identified to oppose extending the exclusions, or to justify departing from any other international proposed amendments.

Key messages in the draft submission to the IAASB

12. The draft submission was informed by feedback received from outreach activities, submissions and staff review of the proposals. Key messages in the draft submission are:
 - (a) **Overall support.** The proposals address the relevant public interest issues proportionately to the nature and circumstances of less complex entities.
 - (b) **Support the current maintenance period for the ISA for LCE.** We support the current frequency and timing of maintenance projects and strongly oppose adopting a periodic update approach for maintaining the ISA for LCE. A key consideration for the XRB adopting the ISA for LCE was the agreed approach for maintenance to commence at the point of when revisions to the ISA for LCE are almost finalised. A periodic approach is considered by some stakeholders to provide a more stable platform for the standard and encourage broader adoption. We raise concerns that delay between revisions to the full ISAs and the ISA for LCE will increase perceptions that the ISA for LCE is a "lesser" audit.
 - (c) **Preserve the relevance and proportionality of the ISA for LCE.** As the ISA for LCE evolves, revisions should maintain a strong focus on relevance and proportionality to preserve its suitability and usefulness. Realising the intended benefits of the ISA for LCE requires a change of mindset to apply the proportionality built into the standard and tailor work to the entity's risks and circumstances.

¹ Essential explanatory material

- (d) **Fraud and going concern revisions require more balance and clearer context.** We recommend refinements to the example on rebutting the presumption of fraud risk in revenue recognition and to provide proportionate guidance on selecting journal entries for testing. We seek views from the Board as to whether the suggested example is helpful. We also recommend strengthening linkages to risk assessment to support early identification of relevant events or conditions.
- (e) **Include provisions for the use of type 1 and type 2 controls reports on service organisations.** We recommend that the IAASB considers the inclusion of provisions equivalent to the proposed New Zealand amendments to allow the use of type 1 and type 2 control reports as audit evidence, in certain circumstances. We encourage the IAASB to undertake narrow scope revisions to address perceived barriers to adoption.

Does the Board agree with the key messages and approve the draft submission?

Consistency Accountability Statement

13. A draft Consistency Accountability Statement (CAS) assessment file note has been prepared for the IAASB maintenance proposals. This working draft is informed through our consultation which explored costs and benefits. The draft assessment is based on what we know now. It will be adjusted once final decisions are made by the IAASB. For ease of navigating the document, areas unique to the ISA for LCE standard have been highlighted in dark grey, and outstanding matters seeking clarification or to be completed later in the standard setting process are highlighted in blue.

Does the Board have any feedback on the draft CAS assessment file note?

Domestic proposals

14. The domestic consultation (part 3 of the [consultation document](#)) focused on whether the proposed New Zealand-specific amendments outlined in the [exposure draft](#) are necessary, appropriately scoped and proportionate, clear and workable, and supported by benefits that outweigh implementation costs and other practical challenges.

What we heard

15. Key takeaways:
 - (a) The proposed amendments received overall positive feedback. Respondents view that the proposals are necessary, appropriately scoped and proportionate, clear and workable.
 - (b) Respondents agree that benefits outweigh the costs.
 - (c) Support for enabling this amendment to be applicable as soon as possible.
 - (d) A couple of minor amendments to drafting were suggested, which staff are currently considering.
16. Considering all feedback received, as summarised in the appendix, staff recommend that the XRB amends the ISA (NZ) for LCE to enable auditors to use type 1 and type 2 reports as audit evidence.
17. Staff will present detailed feedback and any recommended changes to the domestic exposure at the NZAuASB's December meeting, when they will seek approval of the domestic amending standard.

Recommendations

18. We recommend the Board:

- (a) APPROVE the draft submission to the IAASB on the proposed amendments to the ISA for LCE.
- (b) NOTE the update on the feedback on the domestic proposed amendments to the ISA (NZ) for LCE.
- (c) NOTE the draft Consistency Accountability Statement.

Material presented

- Board meeting summary paper
- Draft submission
- Draft Consistency Accountability Statement
- Supplementary: submissions received

Appendix

Consultation feedback summary

19. This appendix sets out the questions from the consultation document and records what feedback we received across the feedback form, emails and the poll run in the deep dive event.
20. As outlined in our [consultation document](#), we accepted feedback on any or all of the questions. So not all questions were answered to by all respondents. At the events, not all poll questions were answered by all attendees.

Feedback summary by question:

Question	Consultation question	What we heard			
		Survey	Written submissions	Deep dive poll	Community of practice
Domestic proposals					
Part 3, question 1	Do you agree with our understanding and our view on the necessary amendments?	1 Agree	2 Agree	7/10 agree 3/10 undecided	All auditors on the call were either supportive or had nothing further to add. One participant commended the proposals as a positive move in the right direction that would help remove barriers. Another expressed appreciation for how quickly the XRB was responding to this matter.
Part 3, question 2	Do you agree the proposals are appropriately scoped and proportionate? If not, why not and what changes do you suggest?	1 Agree	2 Agree	10/10 agree	
Part 3, question 3	Do you agree that the requirements and Essential Explanatory Material are clear and workable? If not, what changes would help improve clarity or application?	1 Agree	2 Agree – Staff are considering the drafting suggestions provided by both submitters.	9/10 agree 1/10 undecided	

Question	Consultation question	What we heard			
		Survey	Written submissions	Deep dive poll	Community of practice
Part 3, question 4	Do you agree that the expected benefits of the proposed amendments, listed on page 7, outweigh the implementation costs and other practical challenges? If not, why not?	1 Agree	2 Agree	10/10 agree	All auditors on the call were either supportive that benefits were greater than costs or had nothing further to add.
Part 3, question 5	Are there any other benefits or costs that we should consider?	1 Nothing else	1 responded: None 1 responded: One further benefit worth noting: enabling reliance on controls reports should also support audit quality, not just efficiency. They also noted that if the barrier is not removed, auditors of LCEs that use service organisations may continue to default to the full ISAs (NZ), which increases cost and effort for both auditors and clients without a corresponding audit quality benefit. Staff are considering these suggestions.	None mentioned in the discussion or chat	Similar to the application date proposal. Two supported early adoption, to get these changes published as soon as possible.

Question	Consultation question	What we heard			
		Survey	Written submissions	Deep dive poll	Community of practice
Part 3, question 6	Do you agree with an application date for periods beginning on or after 1 March 2026?	1 Agree	2 Agree Both recommended that XRB permitted early adoption.	10/10 Agree	
International proposals					
Part 4, question 7	We seek your views on the questions raised in the IAASB explanatory memorandum.	1 Supported proposed revisions	1 Supported proposed revisions 2 Encouraged the XRB to work with IAASB to pursue equivalent amendments on control reports.		
	Is the approach for presumption of fraud over revenue recognition proportionate for the context and nature of an LCE?			6/9 Agree 2/9 Disagree, overemphasises the likelihood of rebuttal 1/9 Undecided	Participants supported the revisions however the EEM a more realistic example would be helpful
	Is the approach for the auditor's evaluation of management's assessment of going concern proportionate for the context and nature of an LCE?			7/9 Agree 2/9 Disagree, procedures should be limited to enquire	Participants supported the proposal
	Do you agree an implementation period of approximately 18 months following approval of the proposed revised standard is sufficient?	1 Agree		8/10 Agree 2/10 Disagree	

Question	Consultation question	What we heard			
		Survey	Written submissions	Deep dive poll	Community of practice
Part 4, question 8	Do you agree that the expected benefits of the proposed amendments, in the IAASB exposure draft outweigh the implementation costs and other practical challenges, listed on page 9? If not, why not?	1 Agree	1 Agree	8/10 Agree 2/10 Undecided	
Part 4, question 9	Are there any other benefits or costs that we should consider?	No answer provided	1 None identified	None mentioned in discussion or chat	
Part 4, question 10	Do you agree we should replace references from listed entity to publicly traded entities?	1 Agree	1 Agree	8/10 agree 1/10 disagree 1/10 undecided	Participants supported the proposal
Part 4, question 11	Are there any compelling reason changes the XRB should make in New Zealand?	No answer provided	1 None identified		

ED-ISA FOR LCE RESPONSE FORM

July 2026

EXPOSURE DRAFT OF PROPOSED INTERNATIONAL STANDARD ON AUDITING FOR AUDITS OF FINANCIAL STATEMENTS OF LESS COMPLEX ENTITIES

Response Form

Guide for Respondents

Comments are requested by **November 17, 2026**. *Note that requests for extensions of time cannot be accommodated due to the timeline for finalization of this proposed revised standard.*

This form is for providing comments on the Exposure Draft of proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (Revised) (ED-ISA for LCE), in response to the questions set out in the Explanatory Memorandum to ED-ISA for LCE. It also allows for respondent details, demographics and other comments to be provided. Use of this form will facilitate the IAASB's analysis of the responses.

You may respond to all questions or only those questions for which you have specific comments.

To assist our consideration and analysis of your comments, please:

- For each question, start by indicating your overall response using the drop-down menu under each question. Include any detailed comments below that, as indicated.
- When providing comments, respond directly to the questions and:
 - Provide the rationale for your answers. If you disagree with the proposals in ED-ISA for LCE, please provide specific reasons for your disagreement and include specific suggestions for changes (including specific wording) that may be needed to the requirements, essential explanatory material or appendices. If you agree with the proposals, it will be helpful for the IAASB to be made aware of this view as support for the IAASB's proposals cannot always be inferred when not stated.
 - Be specific about the Parts, paragraphs or appendices in ED-ISA for LCE to which your responses relate.
 - Refrain from inserting tables or text boxes in your responses.

It is not necessary to include a cover letter containing a summary of your key issues. The response form provides the opportunity to include any other views you wish to place on the public record, should you choose to do so. All responses will be considered a matter of **public record** and will ultimately be posted on the IAASB website.

Use the **"Submit Comment"** button on the web page for [proposed ISA for LCE \(Revised\)](#) to upload the completed form.

Responses to IAASB's Request for Comments in the Explanatory Memorandum for ED-ISA for LCE

PART A: Respondent Details and Demographic information

Your organization's name (or your name if you are making a submission in your personal capacity)	External Reporting Board
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Lisa Thomas
Name(s) of contact(s) for this submission (or leave blank if the same as above)	
E-mail address(es) of contact(s)	Lisa.thomas@xrb.govt.nz
Geographical profile that best represents your situation (i.e., the geographical perspective from which are you providing feedback on ED-ISA for LCE). Select the most appropriate option.	<u>Asia Pacific</u>
	If "Other", please clarify
The stakeholder group to which you belong (i.e., the perspective from which are you providing feedback on ED-ISA for LCE). Select the most appropriate option.	<u>Jurisdictional or other standard setter</u>
	If "Other", please specify
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	

Should you choose to do so, you may provide overall views or additional background to your submission. **Please note that this is optional.** The IAASB's preference is that you incorporate all your views in your comments to the questions.

Information, if any, not already included in responding to the questions in Part B:

Click or tap here to enter text.

PART B: Responses to Questions in the Explanatory Memorandum for ED-ISA for LCE

For each question, please start with your overall response by selecting one of the items in the drop-down list under the question. Provide your detailed comments, if any, below as indicated.

Overall Impact

1. Do you agree that ED-ISA for LCE appropriately addresses the **relevant public interest issues** related to the underlying ISA projects and satisfies the identified **qualitative characteristics of the Public Interest Framework**? You are invited to include as part of your response insights on the **implications or effects** of implementing the proposed revisions in ED-ISA for LCE.

(See Section I-A and the Appendix in the Explanatory Memorandum)

Overall response: Agree, with comments below

Detailed comments (if any):

The proposed revisions appropriately address the relevant public interest issues and are proportionate to reflect the nature and circumstances of audits of less complex entities (LCEs).

Looking ahead, it is important to maintain the fine balance between maintaining high quality reasonable assurance while ensuring the ISA for LCE is proportionate. The IAASB should avoid introducing unnecessary requirements that may reduce audit efficiency and diminish the suitability and usefulness for audits of LCEs. For future revisions, we recommend that the IAASB updates the [mapping document](#) between the full ISAs and ISA for LCE created to develop the original exposure draft. This would be helpful in assessing the proportionality of the proposals.

Achieving the intended benefits of the ISA for LCE cannot be achieved by standard setting alone. A change in mindset by auditors is needed to apply the proportionality built into the standard, tailor work and expectations to the entity's risks and circumstances, and avoid replicating requirements designed for more complex audits.

Content of ED-ISA for LCE

Part A

- 2.1. Provide your views on the proposed revisions to **Part A, Authority of the ISA for LCE**. Please also share your views on whether the public interest issues identified in the underlying ISA projects are *relevant* to the ISA for LCE and, if so, whether they are addressed in a *proportionate* way.

(See Section I-B in the Explanatory Memorandum)

Overall response: Support the proposed revisions (with no further comments)

Detailed comments (if any):

Part 1

- 2.2. Provide your views on the proposed revisions to **Part 1, Fundamental Concepts, General Principles and Overarching Requirements**. Please also share your views on whether the public interest issues identified in the underlying ISA projects are *relevant* to the ISA for LCE and, if so, whether they are addressed in a *proportionate* way.

(See Section I-C in the Explanatory Memorandum)

Overall response: Support the proposed revisions (with no further comments)

Detailed comments (if any):

Click or tap here to enter text.

Parts 2 and 3

- 2.3. Provide your views on the proposed revisions to **Part 2, Audit Evidence and Documentation** and **Part 3, Engagement Quality Management**. Please also share your views on whether the public interest issues identified in the underlying ISA projects are *relevant* to the ISA for LCE and, if so, whether they are addressed in a *proportionate* way.

(See Section I-D in the Explanatory Memorandum)

Overall response: Support the proposed revisions (with no further comments)

Detailed comments (if any):

Click or tap here to enter text.

Part 5

- 2.4. Provide your views on the proposed revisions to **Part 5, Planning**. Please also share your views on whether the public interest issues identified in the underlying ISA projects are *relevant* to the ISA for LCE and, if so, whether they are addressed in a *proportionate* way.

(See Section I-E in the Explanatory Memorandum)

Overall response: Support the proposed revisions (with no further comments)

Detailed comments (if any):

Click or tap here to enter text.

Part 6

2.5. Provide your views on the proposed revisions to **Part 6, Risk Identification and Assessment**. Please also share your views on whether the public interest issues identified in the underlying ISA projects are *relevant* to the ISA for LCE and, if so, whether they are addressed in a *proportionate* way.

(See Section I-F in the Explanatory Memorandum)

1. Responses related to Presumption of ROMMs Due to Fraud in Revenue Recognition (Part 6.4)

Overall response: Support the proposed revisions, with comments below

Detailed comments (if any):

We support changing the work effort verb from “evaluate” to “determine” and requiring the auditor to take into account related fraud risk factors to align with the enhanced requirement in ISA 240 (Revised). We agree that the control environment may not be strong in an LCE, and that simple revenue streams are not inherently risk free, as revenue recognition can still involve judgements relating to conditions, timing, cut-off and classification.

We support the message in the proposed EEM that there are often circumstances in an audit of an LCE where the presumption of ROMMs due to fraud in revenue recognition may be rebutted. However, we do not consider the illustrative example is reflective of audits of LCEs. It may not provide sufficient assistance to auditors in exercising professional judgement and may not promote consistent application in practice.

Recommendation

We recommend enhancing the EEM by using a more realistic example that reflects the types of revenue streams and judgements commonly encountered in LCEs. The example should clearly illustrate the factors supporting rebuttal and the circumstances in which fraud risks are considered despite simple revenue streams.

For example:

“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 risk factors are not significant and, therefore, may rebut. For example: A charity is fully funded by a government contract to deliver health education to schools. Based on the risk assessment procedures performed, the auditor determined that services are delivered several months before year end, such that there was no significant opportunity to manipulate the cut off of revenue. The auditor also determined that the contract revenue is a fixed amount. There is no incentive for management to manipulate revenue as future contract renewals are based on the quality of service delivery not on revenue recognised in the prior period.”

2. Other proposals in Part 6

Overall response: Support the proposed revisions, with comments below

Detailed comments (if any):**1) Technology to enable fraudulent activity (EEM paragraph 6.3.8)**

The proposed EEM at 6.3.8 to address the ability to use technology to enable fraudulent activity is proportionate. However, the addition of the phrase “*in relation to the entity’s process to prepare its financial statements*” narrows the focus to the financial statement preparation process. This suggests a year-end management override of controls opportunity rather than recognising that technology can create opportunities to commit fraud throughout the reporting period.

Recommendation

Amend the EEM by changing “financial statements” to “financial information” to maintain the broader concept that technology may facilitate fraud on an ongoing basis, rather than the consideration to risks arising during the financial statement preparation.

For example:

“Fraudulent financial reporting often involves management override of controls that otherwise may appear to be operating effectively, which may include, in relation to the entity’s process to prepare its financial statements information, taking advantage of inadequate information processing controls in information technology applications.”

2) Linkages to ISA 315

We have concerns regarding the assessment that enhancements made to ISA 570 to clarify linkages to ISA 315 are not necessary because of the structure and flow of ISA for LCE. We consider this places insufficient emphasis on going concern considerations when obtaining an understanding of the entity in section 6.3.

Recommendation

Include more references to going concern considerations when the auditor obtains an understanding of the entity to support the earlier identification of events and conditions that may affect the entity’s ability to continue as a going concern.

We recommend incorporating going concern considerations from ISA 570 paragraph 12 into the EEM at section 6.3.4 .

For example:

“Understanding the entity’s business model helps the auditor to understand the entity’s objectives and strategy, and to understand the business risks the entity takes and faces Understanding the entity’s business risks assists the auditor in identifying risks of material misstatement, since most business risks will eventually have financial consequences and, therefore, an effect on the financial statements and may be relevant to events or conditions that may cast significant doubt on the entity’s ability to continue as a going concern.

Relevant industry factors include industry conditions such as the competitive environment, supplier and customer relationships, and technological developments that may have an effect on the entity’s financing. Other external factors affecting the entity that the auditor”

Part 7

- 2.6. Provide your views on the proposed revisions to **Part 7, Responding to Assessed Risks of Material Misstatement**. Please also share your views on whether the public interest issues identified in the underlying ISA projects are *relevant* to the ISA for LCE and, if so, whether they are addressed in a *proportionate* way.

(See Section I-G in the Explanatory Memorandum)

1. Responses related to Going Concern Section (Part 7.4)

Overall response: Support the proposed revisions, with comments below

Detailed comments (if any):

1) Evaluation of management's assessment (paragraph 7.4.1)

We support the proposal to evaluate management's assessment of going concern as a proportionate response to the context and nature of an LCE. The EEM strikes an appropriate balance by recognising that management's assessment may be informal. We support the IAASB's decision not to limit the requirement to enquiry and discussion. Other audit procedures, such as inspection of documents e.g. budgets, provide evidence in practice, particularly given the close relationship between management and ownership that often exists in LCEs.

We also support retaining the extant illustration of how enquiry, discussion, and inspection may be applied, as it provides a useful example of how the requirement can be implemented in a scalable and proportionate manner.

We support the proposal that management's assessment cover a period of at least 12 months from the date the financial statements are approved. This aligns closely with current New Zealand requirements and practice.

2) Journal testing (paragraph 7.4.6.a(iA))

Public Interest Issue #13 "Uncertainty about how to select journal entries to test that has resulted in inconsistent application" has not been adequately addressed by the addition of proposed requirement paragraph 7.4.6.a(iA) on completeness of journal entries. While completeness is important, it does not provide sufficient guidance on how auditors identify and select journal entries for testing. Although some LCEs may process only a small number of journal entries, others may rely heavily on manual recording of transactions. Accordingly, guidance on selecting journal entries for testing remains relevant for many LCEs.

Recommendation

Include an Appendix based on the principles of Appendix 4 in ISA 240 (Revised), to provide proportionate guidance on selecting journal entries and other adjustments for testing in an LCE audit. The Appendix could highlight the relationship between the presence of fraud risk factors and journal entries susceptible to unauthorized or inappropriate intervention or manipulation. Providing this guidance would support more consistent application while remaining proportionate to the nature and circumstances of an LCE.

For example:

“Additional Considerations the May Inform the Auditor When Selecting Journal Entries and Other Adjustments for Testing

The following considerations are of relevance when selecting journal entries and other adjustments for testing:

- The presence of fraud risk factors, may assist the auditor to identify specific classes of journal entries and other adjustments for testing. These may include journal entries and other adjustments susceptible to unauthorised or inappropriate intervention or manipulation resulting from:
 - Pressures to comply with debt repayment or other debt covenant requirements
 - Opportunities, arising from the inappropriate segregation of duties, for any individual in the entity to conceal or perpetrate fraud in the normal course of that individual’s duties
 - Opportunities arising from deficiencies in internal control
 - Opportunities arising from privileged access granted to individuals due to minimal staff
- Inappropriate journal entries or other adjustments often have unique identifying characteristics. Such characteristics may include entries:
 - Made to unrelated, unusual, or seldom-used accounts.
 - Made by individuals who typically do not make journal entries.
 - Recorded at the end of the period or as post-closing entries that have little or no explanation or description.
 - Made either before or during the preparation of the financial statements that do not have account numbers.
 - Containing round numbers or consistent ending numbers.
 - Applied to accounts that have not been reconciled on a timely basis or contain unreconciled differences.

2. Other proposals in Part 7

Overall response: Support the proposed revisions (with no further comments)

Detailed comments (if any):

Click or tap here to enter text.

Part 8

2.7. Provide your views on the proposed revisions to **Part 8, Concluding**. Please also share your views on whether the public interest issues identified in the underlying ISA projects are *relevant* to the ISA for LCE and, if so, whether they are addressed in a *proportionate* way.

(See Section I-H in the Explanatory Memorandum)

Overall response: **Support the proposed revisions (with no further comments)**

Detailed comments (if any):

Click or tap here to enter text.

Part 9

2.8. Provide your views on the proposed revisions to **Part 9, Forming an Opinion and Reporting**. Please also share your views on whether the public interest issues identified in the underlying ISA projects are *relevant* to the ISA for LCE and, if so, whether they are addressed in a *proportionate* way.

(See Section I-I in the Explanatory Memorandum)

Overall response: **Support the proposed revisions (with no further comments)**

Detailed comments (if any):

Click or tap here to enter text.

Part 10 and Appendices

2.9. Provide your views on the proposed revisions to **Part 10, Audits of Group Financial Statements and Appendices**. Please also share your views on whether the public interest issues identified in the underlying ISA projects are *relevant* to the ISA for LCE and, if so, whether they are addressed in a *proportionate* way.

Overall response: **Support the proposed revisions, with comments below**

Detailed comments (if any):

Appendix 3A Events or conditions that may cast significant doubt on the entity's ability to continue as a going concern

We support the inclusion of Appendix 3A, based on ISA 570 paragraph A7, as relevant to audits of an LCE. To enhance its proportionality, the financial examples could better reflect the nature and circumstances of an LCEs. For example, owner-managers cease to take drawings or a salary, or the entity relying on funding from friends/family.

Other Matters

Maintenance of the ISA for LCE

3. Do you agree with the Maintenance Approach? Please also share your views relating to the frequency and timing of maintenance projects and how the approach could be improved, including, as applicable, how to achieve the appropriate balance between the desire for stability between different versions of the standard and keeping the standard aligned with the core requirements and concepts of the ISAs.

(See Section I-J, paragraphs 72–76 in the Explanatory Memorandum)

Overall response: **Neither agree/disagree, but see comments below**

Detailed comments (if any):

Maintenance period

A key consideration for the XRB in deciding to adopt the ISA for LCE standard in New Zealand was the IAASB's commitment to maintaining the ISA for LCE, to keep it up to date, and to the greatest extent possible, consistent with the ISAs.

We recognize that not every revision to the full ISAs will be relevant to audits of LCEs. However, close alignment is a necessary design feature of the ISA for LCE, not a project to undertake when resourcing allows. We recommend that the IAASB continue with the current approach agreed to and communicated for maintenance. The need to commence the maintenance project at the point when revisions to the full ISAs are almost finalised was previously debated. The agreed approach ensures that settled ISAs revisions can be adapted proportionately, while limiting the effective date gap.

We would strongly oppose a move to a periodic update approach. A prolonged lag would create unresolved public interest inconsistencies, weaken stakeholder confidence and may exacerbate an existing perception risk that the ISA for LCE is a lesser product, where revisions to the ISAs address acknowledged public interest issues. Users confidence in the ISA for LCE product is a key driver for more timely maintenance.

It is critical that the IAASB can justify divergence between the effective dates and ensure that confidence is preserved during any delay.

If an ISA revision addresses public interest issues that are relevant to audits of LCEs, a lengthy delay would require a clear explanation as to why the ISA for LCE solution remains appropriate.

Reliance on controls reports for service organisations

The ISA for LCE recognises that a LCE may use a service organisation. However, the standard does not include any requirements that relate to using controls reports as audit evidence about the design, implementation, operating effectiveness of controls. The rationale for this approach was that reliance on these controls as audit evidence is not typical of LCEs.

Based on our recent engagement with stakeholders, auditors considering the ISA (NZ) for LCE explained that, in increasing circumstances, they do rely on controls reports as audit evidence when auditing LCEs.

Therefore, the XRB has proposed in New Zealand to enable auditors to use type 1 or type 2 control reports as evidence where appropriate. We have included requirements from ISA (NZ) 402, Audit Considerations

Relating to an Entity Using a Service Organisation and essential explanatory material needed to support that outcome in a proportionate way for audits of LCEs.

We have received strong support for the proposals, which will be applicable for accounting periods beginning on or after 1 March 2026.

We recommend the IAASB pursue narrow scope amendments ahead of a post implementation review to consider the inclusion of provisions equivalent to the proposed New Zealand amendments, to address perceived barriers to adopting the standard.

Other matter – reference to international financial reporting standards

Extant ISA for LCE refers to international financial reporting standards throughout. The IFRS foundation issued guidelines that the accounting standards issued by the International Accounting Board should be referred to as IFRS Accounting Standards. This was operationalized in 2025 IFRS for SMEs which is applicable for annual reporting periods beginning on or after 1 January 2027.

Recommendation

We recommend the IAASB updates references to IFRS Accounting Standards in the ISA for LCE as part of this maintenance project.

Effective Date

4. The IAASB believes that an appropriate implementation period would be approximately 18 months after the expected date of approval of the proposed revised standard. Do you agree that this will provide a sufficient period to support effective implementation of the proposed revisions to the standard? If not, what do you propose and why?

(See Section I-J, paragraphs 77–78 in the Explanatory Memorandum)

Overall response: **Agree (with no further comments)**

Detailed comments (if any):

Translations

5. Recognizing that many respondents may intend to translate the final standard for adoption in their own environments, have you identified any potential translation challenges or issues?

If so, please describe the issue identified and clearly indicate the specific paragraph numbers of any requirements, essential explanatory material, or appendices to which your comments relate.

Overall response: **No response**

Detailed comments (if any):

Click or tap here to enter text.

This document was prepared by the Staff of the International Auditing and Assurance Standards Board (IAASB).

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related services standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB develops auditing and assurance standards and guidance under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB and IESBA Stakeholder Advisory Council, which provides public interest input into the development of the standards and guidance.

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NZAuASB Board meeting summary paper

Meeting date: 14 October 2026

Subject: **Audit Evidence and Risk Response**

Date: 30 September 2026

Prepared by: Karen Tipper

Reviewed by: Misha Pieters

☐ **Action Required**

☒ **For Information Purposes Only**

Agenda item objectives

1. The objective of this agenda item is for the Board to NOTE the planned outreach and DISCUSS selected proposals.

Background

2. At its August meeting, the Board APPROVED the New Zealand consultation document and AGREED that the XRB should seek views on the Audit Evidence and Risk Response (AERR) proposals.
3. On 5 August 2026, the IAASB issued four exposure drafts:
 - Proposed [ISA 330](#) (Revised) – The Auditor’s Responses to Assessed Risks
 - Proposed [ISA 500](#) (Revised) – Audit Evidence
 - Proposed [ISA 520](#) (Revised) – Analytical Procedures
 - Exposure Draft for the [audit evidence and risk response project overall](#) (includes proposed conforming and consequential amendments)
4. The XRB published its [consultation](#) on 11 August 2026 and notified stakeholders through an [Audit and Assurance Alert](#) issued on the same day. This met the SPE measure of issuing a domestic consultation within three weeks of the international exposure drafts.
5. Submissions to the XRB close on 11 November 2026. Submissions to the IAASB close on 15 December 2026.

Stakeholder engagement

6. Before the exposure drafts were issued, we engaged with the audit reference group and the FMA ahead of IAASB meetings to inform development of the proposals. Key messages from those discussions included:
 - (a) practitioner support for the proposed removal of the requirement to carry out testing of all material balances irrespective of the assessed risk of material misstatement as in keeping with a risk-based audit.
 - (b) concerns from the regulator about the removal of this same requirement driven by the risk of incomplete risk assessment

- (c) support for a tests of controls only approach in limited circumstances where substantive procedures may add little evidence beyond that obtained from tests of controls and analytical procedures. Support that the approach is only available in limited circumstances.

Field Testing

7. Staff invited auditors to participate in field testing of three proposals:
 - (a) Material classes of transactions, account balances or disclosures (COTABDs) that are not significant COTABDs (Proposed ISA 330 (Revised)).
 - (b) Responding to risk at the assertion level through tests of controls alone (Proposed ISA 330 (Revised))
 - (c) Which attributes to focus on in evaluating the reliability of evidence (Proposed ISA 500 (Revised))

The field-testing approach used materials developed by staff at the Canadian standard setter.

Other outreach

8. An audit and assurance alert issued on [23 September](#) spotlighted the technology aspects of the AERR consultation. We highlighted the international webinars on these proposals in this alert.
9. The AERR consultation will also be profiled in the next XRB Update.
10. We are holding a deep dive on the proposals on [6 October](#) and will also highlight the exposure drafts at the Need-to-know webinar on [13 October](#).
11. Staff will meet with regulators to obtain feedback during October.
12. We will seek input from XRAP members, noting that the next XRAP meeting is in November. We also plan to engage with users and preparers to inform our response.

Matters to consider

13. For the October meeting, staff have identified the following proposals for discussion with the Board. The detailed proposals, supporting rationale and matters for Board discussion are set out in the issues paper:
 - (a) how technology has been addressed throughout the proposals
 - (b) removing paragraph 18 of extant ISA 330, together with amendments to ISA 315 that would strengthen the basis for determining and documenting that a material COTABD is not significant
 - (c) making explicit that auditors may use tests of controls alone when specified conditions are met
 - (d) introducing a threshold for evaluating differences between the auditor's expectation and the recorded amount.
 - (e) Proposals for a principles-based framework for evaluating the relevance and reliability of information intended to be used as audit evidence, including consideration of the attributes of reliability that are significant in the circumstances.

Next steps

14. Staff will develop the final submission for the Board's approval at its December meeting. The submission will reflect feedback obtained through outreach and formal submissions received.

Recommendations

15. We recommend that the Board NOTE the planned outreach and PROVIDE preliminary views on the proposals highlighted in the issues paper to inform the developing submission

Material presented

- Board meeting summary paper
- Issues paper

Subject: Key Messages: Audit Evidence and Risk Response

1. This paper outlines selected proposals in the Audit Evidence and Risk Response exposure drafts, explains the rationale for each proposal, and identifies matters for discussion with the NZAuASB. The discussion will inform the XRB's outreach and submission to the IAASB.

Technology is a theme that is reshaping how audits are performed and evidence is obtained

Rationale

2. Technology was an important consideration in the revisions because entities and auditors increasingly use sophisticated technologies in financial reporting processes and audit engagements. The IAASB considered the implications of emerging technologies across the revisions in the Audit Evidence and Risk Response exposure drafts as part of its broader objective to strengthen the principles-based, risk-based audit framework.
3. Though the use of technology is not mandated in any of the proposed revisions, the new proposals are designed to future proof the auditing standards and allow flexibility as emerging technologies develop and evolve. As such, the proposals keep the standards principles-based and flexible, rather than introducing detailed requirements for specific technologies.
4. The proposals acknowledge that the objective of the audit remains the same. Technology is changing how audits are performed, but it is not changing why they are performed. Auditors still need to obtain sufficient appropriate audit evidence, respond to assessed risks, and apply professional judgement and professional scepticism.
5. The IAASB concluded that a principles-based rather than technology-specific approach provides a stable foundation for high-quality audits while remaining flexible enough to accommodate technological advancements. The proposals clarify how existing principles apply when technology tools are used, without mandating their use or prescribing requirements for particular technologies.
6. A new term "**Technological tools**" has been proposed as a replacement for "automated tools and techniques." The intention behind this change is to recognise that technology is a tool that can be utilised rather than a procedure.
7. A new appendix to Proposed ISA 500 (Revised) would explain the benefits of appropriately using technological tools and identify automation bias as a potential impediment to the exercise of professional scepticism.
8. This approach facilitates potential future workstreams where non-authoritative material may be developed to address specific challenges or themes as technology develops.

9. What are the Board's preliminary views on how the standards should address technology?
--

Removing the requirement for substantive procedures for every material class of transactions, account balance and disclosure

Proposals

10. The IAASB is proposing to remove [paragraph 18](#) in extant ISA (NZ) 330. This paragraph requires the following:

“Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure.”

11. The proposal also includes conforming amendments to ISA 315. These would add application material and amend the documentation requirement in paragraph 38 to support and clarify the auditor’s determination of whether a material class of transactions, account balance, and disclosure (COTABD) is a significant COTABD.
12. “In applying ISA 230, the auditor shall include in the audit documentation: (Ref: Para. A237–A241) ...
 - (b) The basis for the auditor’s determination in accordance with paragraph 36 that material classes of transactions, account balances or disclosures are not significant classes of transactions, account balances or disclosures. (Ref: Para. A238A)

Rationale

13. Removing paragraph 18 would align ISA 330 more closely with the risk-based audit. Paragraph 18 was introduced before the clarity project and before recent enhancements to risk identification and assessment in revised ISA 315. Its origin was to provide a safeguard where the auditor’s risk assessment did not identify all risks of material misstatement by requiring substantive procedures for every material COTABD.
14. The IAASB considered removing paragraph 18 when it revised ISA 315. Stakeholder views were mixed. Some stakeholders considered the requirement redundant because of the strengthened risk assessment requirements. Others considered it necessary because risk assessment involves judgement and may not identify every risk of material misstatement, while controls are subject to inherent limitations, including management override. The IAASB decided at that time to retain the paragraph and continue monitoring the issue.
15. The proposed amendments would strengthen the requirements and application material in ISA 315. They would require the auditor to document the basis for determining that a material COTABD is not significant and would connect the stand-back evaluations in paragraphs 35 and 36, supporting more robust risk identification and assessment.
16. In developing these proposals the IAASB considered 3 options:
 - (b) **Option 1 – Removing paragraph 18 of extant ISA 330 and strengthening ISA 315 (option chosen).**
 - (c) **Option 2 – Retaining paragraph 18 of extant ISA 330 and adding refinements to the application material.** This would include adding examples of assertions on which the auditor may focus when a material COTABD is not significant and therefore has no identified relevant assertions. Application material would explicitly acknowledge that under certain circumstances a tests of controls alone approach to address an assertion-level risk of material misstatement is appropriate.
 - (d) **Option 3 – Making paragraph 18 of extant ISA 330 conditional and updating the application material.** The auditor would determine whether substantive procedures are needed for each material COTABD that is not significant, based on criteria such as users’ specific information needs. Application material would support this judgement. Any substantive procedures would be targeted and proportionate.
17. The IAASB selected Option 1 because it most closely aligns with the risk-based approach underpinning the ISAs and does not undermine the risk assessment process.

18. IAASB members who supported Option 2 emphasised the value of retaining substantive procedures for all material COTABDs. They considered that the rationale for the other options was not sufficiently compelling to justify changing the extant requirement.
19. A minority of IAASB members favoured Option 3. Others noted that it could be applied inconsistently, as matters of particular importance to users may be difficult to interpret alongside materiality judgements that already take users' needs into account. They also observed that the option may increase costs without overcoming—and may compound—the practical challenges associated with the extant requirement.
20. For New Zealand, the principal trade-off is between closer alignment with a risk based audit and the loss of a longstanding safeguard against incomplete risk identification. The issue is whether the strengthened standback and documentation requirements provide sufficient protection.
21. **What are the Board's preliminary views on the options and the proposed removal of paragraph 18 to inform the developing submission?**

Explicitly allowing a tests of controls only approach

Proposals

22. The IAASB proposes to clarify that an auditor may use tests of controls alone when specified conditions are met. Removing paragraph 18 of extant ISA 330 would remove the requirement to perform substantive procedures for every material COTABD, while proposed paragraph 16 would constrain when a test of control alone response is appropriate.
23. Proposed paragraph 16 specifies the conditions that must be met:

"If the auditor plans to respond to assessed risks of material misstatement at the assertion level through tests of controls alone, the auditor shall only do so when:

 - (a) The inherent risk related to such risks is not assessed on the higher end of the spectrum of inherent risk and no such risks are determined to be significant risks; and
 - (b) The auditor's expectation about the operating effectiveness of the controls that address inherent risk is such that the risks of material misstatement at the assertion level are at an acceptably low level. (Ref: Para. A52)"

Rationale

24. Entities are increasingly using more technology in their financial reporting processes. This increases the potential for these entities to have robust automated control processes in place to prevent, or detect and correct, material misstatements.
25. In some circumstances, audit evidence about the operating effectiveness of controls may be more persuasive than audit evidence obtained through substantive procedures, particularly where the controls are appropriately designed, implemented and operating effectively.
26. Together, these considerations support the view that, when the proposed conditions are met, tests of controls alone may provide sufficient appropriate audit evidence related to assessed risks of material misstatements at the assertion level.

27. What are the Board's preliminary views on a test of controls only approach?

The threshold for determining the amount of difference from expected amounts that is acceptable without further investigation

Proposals

28. Proposed ISA 520 (Revised) explicitly recognises that for a substantive analytical procedure, the threshold to evaluate differences from expected amounts that is acceptable without investigation may not exceed performance materiality. Proposed paragraph 8(c) would require the auditor to:

“Determine an amount, not exceeding performance materiality, as a basis for evaluating any difference between the expectation developed by the auditor and the recorded amounts (or amounts derived from recorded amounts) that is acceptable without further investigation of whether a misstatement exists as required by paragraph 8(d).”

Rationale

29. The precision of a substantive analytical procedure depends on the level at which the amount of difference between the expectation developed by the auditor and the recorded amount is acceptable without further investigation is set. If the threshold is set too high, the procedure may not detect material misstatements at the assertion level, and therefore not meet the purpose of a substantive procedure.
30. ISA 320 requires the auditor to determine performance materiality when assessing risks of material misstatement and determining further audit procedures. Performance materiality is set below materiality for the financial statements as a whole to reduce aggregation risk to an appropriately low level.
31. The proposal makes explicit that the amount determined as a basis for evaluating differences must not exceed performance materiality (paragraph 8(c)).
32. The question is whether this would cause practical issues for auditors?
33. **What are the Board’s preliminary views about what is an acceptable threshold for evaluating differences between the auditor’s expectation and recorded amounts?**

A proposed framework to evaluate the relevance and reliability of information

Proposals

34. Proposed ISA 500 (Revised) includes a framework to support judgements about information to be used as audit evidence. The proposals include:
- A new definition for audit evidence:
 - “Information, after applying audit procedures, that the auditor uses to draw conclusions that form the basis for the auditor’s opinion and report.”
 - A new paragraph 11, a principle-based requirement to evaluate the relevance and reliability of information intended to be used as audit evidence irrespective of the source, when designing and performing audit procedures. In making this evaluation, the auditor considers the source of the information and the attributes of reliability that are of significance in the circumstances to meet the intended purpose(s) of the audit procedures in relation to which such information will be used.
 - Proposed paragraph 13 addresses the work effort required to evaluate the reliability of information intended to be used as audit evidence. To the extent that reliability of the information has not already been evaluated through other audit procedures, the auditor

would either test the operating effectiveness of controls that address the reliability of the information or perform other audit procedures.

- Additional application material in paragraphs A28 and A42–A54 would explain the attributes of reliability. The attributes are not intended to be used as a checklist.
- The attributes are:
 - Accuracy - the information is free from error, and appropriately reflects the underlying conditions, events, circumstances, actions or inactions, including the appropriate period or point in time attributable to the conditions or events.
 - Completeness – the information reflects all of the underlying conditions, events, circumstances, actions or inactions.
 - Authenticity – the information has been generated or provided by a source authorised to do so, and the information has not been altered in a manner that makes it inadequate for the audit.
 - Absence of bias – the information is free from intentional and unintentional bias in its reflection of the underlying conditions, events, circumstances, actions or inactions.
 - Credibility - the source has the competence and capability to generate the information to a required standard, and the source can be trusted
- Clarification in application material in A61 that the auditor is not required to document the consideration of each attribute of reliability of the information.

Rationale

35. Extant ISA 500 defines audit evidence as information used by the auditor in arriving at the conclusions on which the auditor's opinion is based. The proposed definition requires a procedure to be applied before the information becomes audit evidence. The intent is to clarify the evaluation the auditor performs before using information as audit evidence.
36. The requirements have been developed to be flexible and to acknowledge that this evaluation may have been done when performing other procedures.
37. The proposed requirements are principles-based and can be scaled to reflect the degree of work effort needed in the circumstances and it is explicit in the requirement that it is the attribute of significance that is required to be evaluated.
38. **What are the Board's preliminary views about the proposed attributes and their application in the specific circumstances?**

NZAuASB Board meeting summary paper

Meeting date: 14 October 2026

Subject: **Sustainability assurance implementation**

Date: 29 September 2026

Prepared by: Anna Herlender

Reviewed by: Karen Tipper, Misha Pieters

☒ **Action Required**

☐ **For Information Purposes Only**

Agenda item objectives

1. The objectives of this agenda item are for the Board to:
 - NOTE the key messages from ongoing engagement and monitoring through an updated GHG Snapshot in Appendix 1 and 2
 - PROVIDE FEEDBACK on the illustrative assurance report prepared in accordance with ISSA (NZ) 5000 that includes voluntary assurance.

Background

2. In August 2026, the Board approved an illustrative report containing an unmodified limited assurance conclusion under ISSA (NZ) 5000, *General Requirements for Sustainability Assurance Engagements* on the mandatory greenhouse gas (GHG) disclosures in climate statements required by the Financial Markets Conduct Act 2013.
3. The Board identified a need for more complex illustrative reports, including reports addressing engagements that combine mandatory and voluntary assurance. Other examples to explore may relate to cross-referencing and prior year restatement of comparatives.
4. The development of the attached more complex illustrative report was informed by:
 - (a) feedback from assurance practitioners at a Virtual Roundtable event in September 2026. The discussion highlighted considerations relating to scope 3 GHG emissions and voluntary assurance. Key messages from the event are included in Appendix 1.
 - (b) GHG snapshot (Appendix 2)

Staff review of the assurance reports issued in 2026 identified the following matters relevant to the development of this more complex illustrative report:

- Five CREs obtained assurance over other climate related disclosures. In four instances the voluntary assurance covered GHG disclosures not required by Aotearoa New Zealand Climate Standards, such as GHG inventory reports and market-based Scope 2 GHG emissions. One CRE obtained assurance over all climate-related disclosures included in the climate statement.

- no instances of cross-referencing to other documents published by a CRE were observed
- comparative information was generally not subject to assurance and was therefore usually excluded from assurance reports. Staff identified one report containing an Other Matter paragraph that explained that the comparatives had been restated but were not subject to assurance.

(c) Discussions with FMA staff.

Matters to consider

5. The draft more complex illustrative report combines:
 - reasonable assurance over some mandatory GHG disclosures;
 - limited assurance over other mandatory GHG disclosures; and
 - limited assurance over selected disclosures that are voluntarily assured.

Identification of the disclosures subject to mandatory assurance

6. The FMC Act 2013 requires an assurance report that also covers other parts of the climate statements to separately identify the disclosures subject to mandatory assurance.
7. In light of this requirement in primary legislation, staff considered how the illustrative assurance report should distinguish mandatory assurance from voluntary assurance, ensuring that the report is readable and understandable for users.
8. The proposed approach aims to make this distinction clear without unnecessarily repeating standard wording. It takes into account that:
 - too little separation may make it difficult for users to distinguish the mandatory assurance from the voluntary assurance.
 - too much separation substantially repeats standard wording and may obscure, rather than clarify, the differences.

Conclusion and scope of the engagement paragraphs

9. ISSA (NZ) 5000 requires the conclusion to be placed in the first section of the assurance report. Because the subject matter information must be clearly identified, staff considered how the conclusion should refer to the specific disclosures subject to assurance.
10. Consistent with the first illustrative report, the draft includes a table that clearly identifies the disclosures subject to assurance. The table is included before the conclusion paragraph.

What is not subject to assurance

11. We heard views that clearly identifying information outside the scope of the assurance engagement is useful to users. The draft therefore retains the paragraph from the NZ SAE 1 illustrative report under a new section, 'What is not subject to assurance'. This paragraph supplements the content required by ISSA (NZ) 5000.

Other matter paragraph

12. The draft illustrates how an Other Matter paragraph could be worded when Scope 3 GHG emissions were not assured in the previous year. This would be relevant to entities that use the adoption provisions in NZ CS 2, *Adoption of Aotearoa New Zealand Climate Standards* to defer disclosure of, or assurance over, Scope 3 GHG emissions.

Other information paragraph

13. The location of climate statements currently varies in practice. Climate statements:

- (a) may be standalone documents, or
 - (b) form part of another document, such as a sustainability report, annual report, or integrated report.
14. In Australia, climate-related disclosures form part of an annual report.
15. The draft illustrative report assumes that the climate statements are included in an annual report. This aligns with current Australian practice and differentiates the draft from the simpler illustrative report approved by the Board in August 2026.

Matters not included in the illustration

16. The following matters are not included in the illustrative report:
- (a) Cross-referencing –our review of the 2026 climate statements identified no instances of cross-referencing to documents published by CREs (see Appendix 2). Given that cross-referencing is uncommon, we have not prioritised this matter in the draft.
 - (b) Restatement of comparatives – similarly restatements are not commonly addressed in assurance reports and are not a priority at this time.

Next steps

17. After considering the Board's feedback, staff will update the illustrative report and share it with assurance practitioners and the FMA for final comments. The illustrative report is planned for issue in mid-November 2026.

Recommendations

18. We recommend that the Board:
- NOTE the key messages from ongoing engagement and the GHG Snapshot included in Appendix 1 and 2; and
 - PROVIDE FEEDBACK on the illustrative assurance report.

Material presented

- Board meeting summary paper
- Illustrative assurance report including voluntary assurance

Appendix 1

Feedback from Virtual Roundtable on the Climate Road Map and Assurance of GHG Disclosures on 10 September 2026:

Assurance over Scope 3 GHG emissions disclosures

- Assurance over Scope 3 GHG emissions is becoming more common, particularly among early adopters and entities with overseas parent companies subject to Australian reporting requirements.
- Although assumptions present the greatest challenge, practitioners generally considered assurance over Scope 3 GHG emissions feasible.
- To date, there have been no qualifications over Scope 3 GHG emissions. This may be because entities have used adoption provisions and have not reported or obtained assurance over the most complex disclosures.

Voluntary assurance

- Voluntary assurance is becoming more common. It may cover market-based Scope 2 GHG emissions disclosures, other parts of the climate statements, or the entire climate statement.
- Practitioners generally considered that the mandatory and voluntary assurance illustrative report should not overcomplicate matters in light of the Financial Markets Conduct Act 2013 requirement, doing so would not add value for the users of the reports.

Appendix 2

GHG Snapshot

We continue to monitor assurance provided on GHG emissions disclosures in climate statements lodged with the Companies Office. Previous snapshots are available on the XRB website: [GHG Assurance Snapshot June 2025](#) and [GHG Assurance Snapshot September 2025](#). Based on prior discussions, we do not plan to publish an updated snapshot on the website.

This snapshot covers climate statements for reporting periods ending on or after 31 December 2025 lodged by 31 August 2026. We reviewed 27 climate statements and assurance reports.

Main observations

- Level of assurance:
 - 22 entities obtained limited assurance
 - 2 entities obtained reasonable assurance
 - 3 entities obtained mixed assurance
- The assurance was provided by:
 - 22 entities engaged their statutory auditor
 - 4 entities engaged another audit firm
 - 1 entity engaged another assurance organisation
- Scope reported:
 - 3 entities reported only Scope 1 and 2 GHG emissions
 - 13 entities included some Scope 3 GHG emissions
 - 11 entities reported full Scope 1, 2 and 3 GHG emissions
- All 11 entities who reported full Scope 3 GHG emissions obtained assurance over these disclosures.
- Where entities reported only part of their Scope 3 GHG emissions, those disclosures were most often not assured. Of the 13 entities that reported partial Scope 3 GHG emissions, four obtained assurance over all the emissions disclosed and two obtained assurance over only a subset.
- Decreased use of communication tools compared to previous years
 - No Emphasis of Matter paragraphs were identified.
 - Seven reports included Key Matters (KAMs). Two of those reports included two KAMs, giving a total of nine KAMs.
 - PwC and EY included KAMs, although not in every report they issued.
 - The KAMs reported in 2026 were generally consistent with those reported in the previous year. However, assurance reports for three entities, that included a KAM in the previous year, did not include one in 2026.
 - The KAMs addressed the following matters:
 - the exclusion of emissions relating to fuel stored and transported from an entity's Scope 3 GHG inventory;

- the classification of emissions associated with purchased heating and cooling;
- specific Scope 3 GHG emissions categories, including use of sold products and upstream transportation and distribution;
- the presentation of investee portfolio emissions as financed emissions;
- the use of the spend-based method to measure Scope 3 GHG emissions;
- geothermal emissions within Scope 1 GHG emissions.
- Other Matter paragraphs all related to comparatives that were unassured, assured by another practitioner, or assured under a standard other than NZ SAE 1.
- Inherent uncertainty paragraphs used standard wording.
- The information subject to assurance did not include cross-references to documents published by CREs. However, in two instances, it included cross-references to external documents, such as reporting standards, guidance or emissions factors.
- No restatements were covered by the assurance reports. One assurance report explicitly stated that the restatements of comparatives are not covered by the assurance conclusion.
- Climate statements filed with the Companies Office were usually standalone documents. In some instances, however, they were included in another report, such as an integrated report available on the entity's website.
- Assurance reports were addressed to various parties including the company, directors, shareholders, or members.
- 16 entities used adoption provision relating to Scope 3 emissions and either did not disclose Scope 3 emissions or disclosed only part of them.
- Five entities obtained voluntary assurance over GHG disclosures not required by the Aotearoa New Zealand Climate Standards. The areas voluntarily assured were predominantly GHG inventory reports or market-based Scope 2 GHG emissions and their related disclosures. One entity obtained assurance over the statement of compliance, governance related disclosures, strategy related disclosures, risk management related disclosures, and metrics and targets related disclosures.

Illustrative Assurance Report

Combined reasonable and limited
assurance report over GHG disclosures
and other disclosures in climate
statements in accordance with ISSA (NZ)
5000



November 2026

Illustration of an unmodified combined reasonable and limited assurance report on Greenhouse Gas disclosures and other disclosures within climate statements

This is an illustrative example of a combined reasonable and limited assurance report over:

- Greenhouse Gas ("GHG") emissions - to meet the requirements of the Financial Markets Conduct (FMC) Act 2013; and
- Other selected disclosures in the climate statements – that an entity chooses to have voluntarily assured.

It illustrates the assurance report when the assurance engagement is performed in accordance with International Standard on Sustainability Assurance (New Zealand) 5000, *General Requirements for Sustainability Assurance Engagements* (ISSA (NZ) 5000). ISSA (NZ) 5000 is required to be applied for accounting periods beginning on or after 15 December 2026, however early adoption is permitted.

The illustration will need to be tailored to the circumstances. It is for illustrative purposes only and is not intended to be exhaustive or applicable to all situations.

For purposes of this illustrative assurance report, the following circumstances are assumed:

- A mandatory reasonable assurance engagement over Scope 1 and 2 GHG emissions disclosures
- A mandatory limited assurance engagement over Scope 3 GHG emissions disclosures
- A voluntary limited assurance engagement relating to selected other disclosures that are not required to be assured by the FMC Act 2013
- Disclosures subject to assurance are included in climate statements for the year ended December 31, 20X1. The selected GHG disclosures, subject to mandatory assurance, and selected other disclosures subject to voluntary assurance, and the practitioner's report thereon have been included in the Climate Statements, which are part of the Company's Annual Report. The practitioner has obtained the Annual Report prior to the date of the assurance report and has not identified a material misstatement of the other information in the Annual Report.
- Climate Reporting Entity (the CRE Company) is a FMC Reporting Entity with higher levels of public accountability.
- The disclosures are prepared in accordance with Aotearoa New Zealand Climate Standards issued by the External Reporting Board, a fair presentation framework. The conclusion is expressed to acknowledge the fair presentation of the disclosures.
- The GHG disclosures are prepared by management in accordance with the measurement criteria applied by CRE Company.
- The GHG disclosures include comparative information that is not referred to in the practitioner's conclusion. The comparative information relating to Scope 1 and 2 GHG emissions disclosures was subject to a limited assurance engagement by the same practitioner in the prior period and the conclusion was unmodified. The comparative information relating to Scope 3 GHG emissions disclosures was not subject to an assurance engagement in the prior period.

- Those charged with governance of the CRE Company are responsible for oversight of the CRE Company's climate reporting process.
- The terms of the assurance engagement reflect the description of those charged with governance's responsibility for the selected GHG disclosures subject to mandatory assurance and selected other disclosures subject to voluntary assurance in ISSA (NZ) 5000.
- The practitioner has concluded that an unmodified (i.e., "clean") conclusion is appropriate based on the evidence obtained.
- The relevant ethical requirements that apply to the assurance engagement comprise Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards)* (New Zealand).
- The firm of which the practitioner is a member applies Professional and Ethical Standard 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

INDEPENDENT PRACTITIONER'S REASONABLE AND LIMITED ASSURANCE REPORT

To [Appropriate Addressee]

Reasonable Assurance Opinion on Greenhouse Gas Disclosures Required by the Financial Markets Conduct Act 2013 to be Subject to Assurance

We have conducted a reasonable assurance engagement on the following Greenhouse Gas ("GHG") emissions disclosures presented in the Climate Statements of CRE (the "Company") for the year ended December 31, 20X1:

Selected GHG Disclosures subject to reasonable assurance	NZ CS 1-3 reference	Reference
Scope 1 and 2 gross GHG emissions	NZ CS 1 para 22 (a)	Paragraphs x to x on pages y to y
Additional required disclosures of gross Scope 1 and 2 GHG emissions	NZ CS 1 para 24	Paragraphs x to x on pages y to y
Scope 1 and 2 GHG emissions methods, assumptions and estimation uncertainty	NZ CS 3 para 52 -54	Paragraphs x to x on pages y to y

In our opinion, the accompanying Selected GHG Disclosures are fairly presented, in all material respects, in accordance with [*relevant measurement criteria*] and Aotearoa New Zealand Climate Standards issued by the External Reporting Board.

Limited Assurance Conclusion on GHG Disclosures Required by the Financial Markets Conduct Act 2013 to be Subject to Assurance

We have conducted a limited assurance engagement on the following GHG emissions disclosures presented in the Climate Statements of the Company for the year ended December 31, 20X1:

Selected GHG Disclosures subject to limited assurance	NZ CS 1-3 reference	Reference
Scope 3 gross GHG emissions	NZ CS 1 para 22 (a)	Paragraphs x to x on pages y to y
Additional required disclosures of gross Scope 3 GHG emissions	NZ CS 1 para 24	Paragraphs x to x on pages y to y
Scope 3 GHG emissions methods, assumptions and estimation uncertainty	NZ CS 3 para 52 -54	Paragraphs x to x on pages y to y

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the accompanying Selected GHG Disclosures are not fairly presented, in all material respects, in accordance with [*relevant measurement criteria*] and Aotearoa New Zealand Climate Standards issued by the External Reporting Board.

Limited Assurance Conclusion on Selected Other Disclosures Subject to Voluntary Assurance

We have conducted a limited assurance engagement on the following Selected Other Disclosures presented in the Climate Statements of the Company for the year ended December 31, 20X1:

Selected Other Disclosures subject to limited assurance	Reference
Disclosure A	Paragraphs x to x on pages y to y
Disclosure B	Paragraphs x to x on pages y to y
Disclosure C	Paragraphs x to x on pages y to y

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the accompanying Selected Other Disclosures are not fairly presented, in all material respects, in accordance with Aotearoa New Zealand Climate Standards issued by the External Reporting Board.

What is not Subject to Assurance

Our conclusions on the Selected GHG Disclosures and Selected Other Disclosures do not extend to any of the information included, or referred to, in the Company's Annual Report on pages x to x or other information that accompanies or contains the Company's Annual Report and our assurance report.

Basis for Reasonable Assurance Opinion and Limited Assurance Conclusion

We conducted our combined reasonable and limited assurance engagement in accordance with International Standard on Sustainability Assurance (New Zealand) 5000, *General Requirements for Sustainability Assurance Engagements (ISSA (NZ) 5000)*, issued by the New Zealand Auditing and Assurance Standards Board.

The procedures in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement. Consequently, the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed.

Our responsibilities under this standard are further described in the *Practitioner's Responsibilities* section of our report.

Independence and Quality Management

We are independent of the Company in accordance with Professional and Ethical Standard 1, *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*, issued by the New Zealand Auditing and Assurance Standards Board, as applicable to the sustainability assurance engagements of public interest entities. We have also fulfilled our other ethical responsibilities in accordance with Professional and Ethical Standard 1.

Our firm applies Professional and Ethical Standard 3, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which requires the firm to design, implement and operate a system of quality management, including policies and procedures regarding compliance with ethical requirements, professional standards, and applicable legal and regulatory requirements.

Other than in our capacity as practitioner, we have no relationship with, or interests in, the Company.

[or Our firm carried out other assignments for the Company in the area of [...]. In addition to this, employees of our firm deal with the Company on normal terms within the ordinary course of the activities of the Company. The firm has no other relationship with, or interests in, the Company.]

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our reasonable assurance opinion and limited assurance conclusions.

Emphasis of Matter¹

We draw attention to [identify the specific disclosure in the GHG Disclosures], which describes [...]. Our reasonable assurance opinion and limited assurance conclusions are not modified in respect of this matter.

Other Matter – Comparative Information

We conducted a limited assurance engagement in the prior period on the Company's Scope 1 and Scope 2 GHG emissions disclosures for the period ended December 31, 20X0, which are included in the comparative information in section Y on page x to y of the Climate Statements. The comparative information, other than the comparative information on Scope 1 and Scope 2 GHG emissions disclosures for the year ended December 31, 20X0 was not subject to an assurance engagement in the prior period.

Other Information²

The directors³ of the Company are responsible for the other information. The other information comprises the information included in the Company's Annual Report,⁴ but does not include the Selected GHG Disclosures and Selected Other Disclosures and our assurance report thereon.

Our reasonable assurance opinion and limited assurance conclusions on the Selected GHG Disclosures and Selected Other Disclosures do not cover the other information and we do not express any form of assurance conclusion thereon⁵.

In connection with our reasonable and limited assurance engagement on the Selected GHG Disclosures and Selected Other Disclosures, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the Selected GHG Disclosures and Selected Other Disclosures or our knowledge obtained in the assurance engagement, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities for the Selected GHG Disclosures and the Selected Other Disclosures

The directors of the Company are responsible for⁶:

- The preparation and fair presentation of:
 - the Selected GHG Disclosures in accordance with [relevant measurement criteria] and Aotearoa New Zealand Climate Standards issued by the External Reporting Board,
 - the Selected Other Disclosures in accordance with Aotearoa New Zealand Climate Standards issued by the External Reporting Board.

¹ Include if the practitioner considers it necessary in the engagement circumstances – see paragraph 199 of ISSA (NZ) 5000.

² Another appropriate heading may be used, such as "Information Other than the Selected GHG Disclosures, Selected Other Disclosures and Assurance Report Thereon."

³ The term directors may need to be replaced by another term that is appropriate in the context of the legal framework for the entity.

⁴ A more specific description of the other information, such as "the financial statements and notes thereto and chairman's statement," may be used to identify the other information.

⁵ If the other information includes the financial statements that have been audited by the practitioner or the practitioner's firm, this statement would ordinarily be expanded as set out in paragraph A586 of ISSA (NZ) 5000.

⁶ The term directors may need to be replaced by another term that is appropriate in the context of the legal framework for the entity.

- Designing, implementing and maintaining such internal control that the directors determine is necessary to enable the preparation of the following information, that is free from material misstatement, whether due to fraud or error:
 - the Selected GHG Disclosures in accordance with [*relevant measurement criteria*] and Aotearoa New Zealand Climate Standards issued by the External Reporting Board,
 - the Selected Other Disclosures in accordance with Aotearoa New Zealand Climate Standards issued by the External Reporting Board.
- Overseeing the Company's climate reporting process.

***Inherent Limitations in Preparing [the Selected GHG Disclosures and Selected Other Disclosures]*⁷**

[If applicable, identify the specific disclosure, and provide specific description of any significant inherent limitations associated with the measurement or evaluation of the GHG emissions or other matters against the applicable criteria].

- Selected GHG Disclosures

GHG emissions quantification relating to [identify source of emissions] is subject to significant measurement uncertainty, which arises because of incomplete scientific knowledge used to determine emissions factors and the values needed to combine emissions of different gases. The comparability of GHG Disclosures between entities and over time may be affected by inconsistencies in the methods to estimate or measure those emissions, due to different, but acceptable, methods applied.

- Selected Other Disclosures

[include relevant wording]

Practitioner's Responsibilities

Our objectives are to:

- (a) Plan and perform the assurance engagement to obtain reasonable assurance about whether the Selected GHG Disclosures subject to reasonable assurance are free from material misstatement, whether due to fraud or error, and to issue an assurance report that includes our opinion.
- (b) Plan and perform the assurance engagement to obtain limited assurance about whether the Selected GHG Disclosures subject to limited assurance are free from material misstatement, whether due to fraud or error, and to issue a limited assurance report that includes our conclusion.
- (c) Plan and perform the assurance engagement to obtain limited assurance about whether the Selected Other Disclosures are free from material misstatement, whether due to fraud or error, and to issue a limited assurance report that includes our conclusion.

Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence decisions of users taken on the basis of the Selected GHG Disclosures and the Selected Other Disclosures.

As part of our combined reasonable and limited assurance engagement in accordance with ISSA (NZ) 5000, we exercise professional judgement and maintain professional scepticism throughout the engagement. We also:

- (a) For a reasonable assurance engagement:

⁷ Include paragraph if relevant to the engagement circumstances – see paragraph 190(g) of ISSA (NZ) 5000.

- Perform risk assessment procedures, including obtaining an understanding of internal control relevant to the engagement, to identify and assess the risks of material misstatement, whether due to fraud or error, at the assertion level for the Selected GHG Disclosures but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
 - Design and perform procedures responsive to the assessed risks of material misstatement at the assertions level for the Selected GHG Disclosures. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- (b) For a limited assurance engagement:
- Perform risk assessment procedures, including obtaining an understanding of internal control relevant to the engagement, to identify and assess the risks of material misstatements, whether due to fraud or error, at the disclosure level for the Selected GHG Disclosures and Selected Other Disclosures but not for the purpose of providing a conclusion on the effectiveness of the entity's internal control.
 - Design and perform procedures responsive to assessed risks of material misstatement at the disclosures level for the Selected GHG Disclosures and Selected Other Disclosures. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

Summary of the Work Performed for Limited Assurance Conclusion

A limited assurance engagement involves performing procedures to obtain evidence about the Selected GHG Disclosures subject to limited assurance and the Selected Other Disclosures. The nature, timing and extent of procedures selected depend on professional judgement, including the assessed risks of material misstatement at the disclosures level, whether due to fraud or error.

In conducting our limited assurance engagement for the Selected GHG disclosures, we:

*[Insert a summary of the nature and extent of procedures performed that, in the practitioner's judgement, provides additional information that may be relevant to the users' understanding of the work performed to support the practitioner's conclusion and the level of assurance obtained.]*⁸

In conducting our limited assurance engagement for the Selected Other Disclosures, we:

*[Insert a summary of the nature and extent of procedures performed that, in the practitioner's judgement, provides additional information that may be relevant to the users' understanding of the work performed to support the practitioner's conclusion and the level of assurance obtained.]*⁹

The engagement leader on the assurance engagement resulting in this independent practitioner's assurance report is [name].

[Signature in the name of the assurance firm, the personal name of the assurance practitioner, or

⁸ The procedures are to be summarised but not to the extent that they are ambiguous, nor described in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is important that the description of the procedures does not give the impression that those procedures were agreed upon by the assurance practitioner with management and in most cases will not detail the entire work plan.

⁹ The procedures are to be summarised but not to the extent that they are ambiguous, nor described in a way that is overstated or embellished or that implies that reasonable assurance has been obtained. It is important that the description of the procedures does not give the impression that those procedures were agreed upon by the assurance practitioner with management and in most cases will not detail the entire work plan.

both, as appropriate]

[Practitioner's address]

[Date of the limited assurance report]

DRAFT

NZAuASB Board meeting summary paper

Meeting date: 14 October 2026

Subject: **Technology – Quality Management Guidance**

Date: 30 September 2026

Prepared by: Lisa Thomas

Reviewed by: Misha Pieters

☐ **Action Required**

☒ **For Information Purposes Only**

Agenda item objectives

1. The objective of this agenda item is for the Board to NOTE progress to keep stakeholders engaged and informed on technology and the proposed approach to promoting the IAASB's technology-related quality management guides in New Zealand.

Background

2. In August, the NZAuASB noted the IAASB's and IESBA's plans for emerging technologies and the XRB's monthly stakeholder communication plan on emerging technologies relevant to assurance and ethics.
3. Following the release of the first technology-focussed audit and assurance alert in [July](#), the [September issue](#) highlighted the technology-related proposals in the current consultation on audit evidence and risk response. It explained that technology is a key theme throughout the proposals and may change how an audit is performed, but does not change the audit's objective.
4. We continue to monitor guidance under development by both the IESBA and the IAASB.

IESBA guidance

5. The IESBA is currently developing the non-authoritative material on Generative AI and Agentic AI. This includes four Generative AI scenarios where there is limited agentic capabilities. The scenarios connect ethical threats, fundamental principles and relevant technology characteristics.
6. This guidance is intended to be approved at the December 2026 IESBA meeting and released in early 2027.

IAASB quality management guidance

7. The IAASB is developing four non-authoritative guides to support the consistent and effective application of ISQM 1¹ and ISA 220 (Revised) when firms and engagement teams use AI-enabled technological tools.
8. The guides respond to quality management challenges arising from characteristics of the tools such as opacity, non-determinism and adaptivity. They aim to help firms and engagement teams understand how existing principles and requirements of ISQM 1 apply. They address quality risks across a tool's lifecycle and cover both firm-level and engagement-level responsibilities.
9. The integrated series will comprise of four guides, as summarised below.

Life cycle phase	Primary focus	Principal guide	Expected approval
	Common conceptual foundation: scope, AI characteristics, quality management life cycle, quality management standards, firm risk assessment process, scalability and proportionality and terminology. Six relevant considerations that firms may use when identifying and assessing quality risks.	Guide 1	October 2026
Pre-deployment design, evaluation and enablement	Where applicable, design or configure relevant elements of the tool; obtain a sufficient basis to determine whether and how it may be made available; design and implement responses; and prepare personnel and the operating environment for use.	Guide 2	December 2026
Engagement-level use and oversight	Apply the firm's policies or procedures in the circumstances of the engagement; direct, supervise and review the work; evaluate the tool's outputs or actions; and communicate relevant experience to the firm.	Guide 3	March 2027
Post-deployment monitoring, change, revalidation and remediation	Monitor information about performance, use, incidents and change, and determine whether earlier assessments, decisions or responses need to be revisited.	Guide 4	June 2027
Decommissioning	Retire, replace, restrict, suspend or otherwise remove the tool or particular functionality from authorised use and address access, information, communication and transition matters.		

10. The guides will follow the ISQM 1 risk assessment process. They will explain how a tool's intended use provides the context for identifying and assessing circumstances that may adversely affect the achievement of quality objectives, and for designing and implementing appropriate responses.

¹ The New Zealand equivalent is PES 3, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements

11. Like ISQM 1, the IAASB intends the guidance to be scalable and proportionate. This is particularly relevant in New Zealand, given the wide range in size and complexity of firms. The planned illustrations and examples are intended to show how ISQM 1 may be applied in different circumstances, including where an AI-enabled tool is used in a firm without the infrastructure of a large or complex firm. The scale or complexity of a firm's use of an AI-enabled tool may drive resource needs, processes and responses.
12. The IAASB expects to approve the guides progressively over the next nine months, beginning with Guide 1 at the end of October 2026. Each guide will be issued following approval. The IAASB expects to publish the complete integrated series, including final conforming and consequential amendments, in June 2027.

Implications for New Zealand

13. The key issue is whether linking directly to the IAASB guides, supported by targeted New Zealand communication, will give practitioners sufficient context. Staff expect the first guide to be issued in late October or early November. Staff considered whether to supplement it with New Zealand information or promote the IAASB material directly. Based on the expected content, staff have not identified any specific or unique New Zealand context or additions. Staff will reassess this approach as the remaining guides are developed and stakeholder feedback emerges.
14. Staff recommend including links to each guide on the IAASB website from the XRB's audit and assurance [technology resources](#) and [quality management](#) webpages when it is first published. The technology page has its own tile for quality management where the guides will be featured likewise, on the quality management webpage from PES 3.
15. On the webpages, staff will explain the purpose and structure of the guidance and the expected publication timeline. Staff will draw on the international material and promote the aspects most relevant to New Zealand. The overarching message will be that *"emerging technologies may enhance audit and assurance quality, but they may also introduce new risks. Their differing characteristics may create quality risks that firms need to identify, understand and mitigate"*. This message will also inform our technology themed audit and assurance alert issued with the first guide.
16. Because the guides may be amended as the series develops, staff recommend linking directly to IAASB material, while clearly identifying the New Zealand equivalent of ISQM 1 on the relevant XRB webpages. This approach is consistent with XRB's previous approach to IAASB quality management implementation guidance, which was not rebranded and did not result in stakeholder confusion.

Recommendations

17. For the Board to note the UPDATE on engagement with stakeholders on technological matters and the proposed approach to promoting the IAASB's technology-related quality management guides.

Material presented

- Board meeting summary paper

Memorandum

To: NZASB members and NZAuASB members

Meeting date: October 2026

Subject: **Application of the modified audit reports policy**

Date: 30 September 2026

Prepared by: Bruce Mcniven and Raveen Kaur

Through: Michelle Lombaard; Misha Pieters

☒ **Action Required**

☐ **For Information Purposes Only**

Purpose

1. The purpose of this paper is to inform the NZASB and NZAuASB (the Boards) of the modified audit and assurance reports received in the 12-month period from 1 October 2025 to 30 September 2026 and to consider whether there are any implications for the accounting standards or the auditing and assurance standards.
2. Modified audit reports are received from auditors who are required to submit modified audit reports to the XRB under the Companies Act 1993, the Financial Markets Conduct (**FMC**) Act 2013¹ and the Incorporated Societies Act 2022. The FMC Act² also requires modified assurance reports of mandatory GHG emissions disclosures and climate statements to be sent to the XRB (and other specified parties).
3. As discussed last year, we have been working on updating the 2016 policy. The latest draft version is attached in the supplementary pack (subject to approval by the XRB board) along with the 2016 policy. The latest policy does not change the conclusions or decisions that we are requesting from the boards.

Recommendations

4. We recommend that, based on the modified audit reports received in the 12-months from 1 October 2025 to 30 September 2026:
 - (a) The NZASB Board **AGREES** that there are no current implications for the accounting standards.
 - (b) The NZAuASB Board **AGREES** that there are no current implications for the auditing and assurance standards.

¹ Our legislative mandate does not extend to reviewing modified audit reports for Public Sector Entities and Charities.

² [Financial Sector \(Climate-related Disclosures and Other Matters\) Amendment Act 2021](#), these reports are considered separately as indicated in par. 8 of this memo.

Background

5. The Companies Act 1993³, Incorporated Societies Act 2022⁴ and the FMC Act 2013⁵ require an auditor to send a copy of the audit report, and a copy of the financial statements or group financial statements, to the XRB (and other specified parties) if the financial reporting requirements of those Acts have not been complied with. No such requirements exist under the current Modified Audit Reports Policy for public entities or charities to submit modified audit reports to the XRB.
6. The current Modified Audit Reports Policy (the “Policy”, dated 2016) sets out the processes to be followed by the XRB Board and its sub-Boards, the NZASB and the NZAuASB, in respect of such audit reports. The Policy also applies when modified audit reports are referred to the XRB by any other party.
7. The key aspects of the Policy in respect to the Boards’ review in respect of financial statements are as follows:
 - (a) For the NZASB – focus on modified audit opinions in relation to material misstatements in the financial statements.
 - (b) For the NZAuASB – focus on modified audit opinions in relation to when the auditor has been unable to obtain sufficient audit evidence.
 - (c) For both Boards – consider implications for the relevant standards by ensuring that the modified audit opinions do not raise any potential issues about the appropriateness, applicability, clarity and/or completeness of the relevant standards.
8. The SRB is being advised separately that no modified assurance reports relating to mandatory climate statements or greenhouse gas (GHG) emissions disclosures were received during the review period.
9. No action needs to be taken by the Boards if the modification of the audit opinion results from non-compliance by an entity of an otherwise appropriate standard. Non-compliance is a matter for the appropriate regulator.

Modified audit reports received in the review period

10. During the review period from 1 October 2025 to 30 September 2026, we received seven modified audit reports under the Companies Act 1993 and the Financial Markets Conduct Act 2013. We did not receive any modified audit reports relating to incorporated societies that fall within the scope of our policy. We received two modified audit reports voluntarily from auditors of incorporated societies, despite the entities falling below the expenditure threshold requiring submission under our policy. The reports were nevertheless reviewed separately to identify any emerging reporting or assurance issues. No issues were noted⁶. The implementation of the Incorporated Societies Act 2022 has expanded the population of entities required to prepare financial statements in accordance with XRB accounting standards. As incorporated societies transition to the new reporting requirements, the XRB may receive an increased number of modified audit reports, particularly where entities encounter first-time adoption challenges or limitations in historical accounting records. These are expected to become more apparent in

³ [Section 207C](#)

⁴ [Section 107](#)

⁵ [Section 461G](#)

⁶ One report was a qualified opinion over cash revenue. The other was a disclaimer of opinion because of insufficient audit evidence over member-related revenue, conference revenue and significant activities reported in the statement of service performance.

the next review cycle and XRB will closely monitor this to identify whether any standard setting activities are required.

11. Any modified audit reports received by the XRB that fall outside the scope of the current modified audit reports policy will be monitored separately. The XRB also maintains ongoing engagement with the Registrar of Incorporated Societies, administered through the Companies Office within the Ministry of Business, Innovation and Employment (MBIE), on matters relating to the new reporting regime.
12. Because this agenda paper will be sent to the Board before 30 September, we will provide a verbal update to the boards if there are any reports received between the date of this memo and 30 September.
13. Based on a period end of 30 September, we have provided below the statistics on the audit reports received by quarter over the past 4 years:

Quarter received	OCT-DEC	JAN-MAR	APR-JUN	JUL-SEP	TOTAL
Period	Quarter 1	Quarter 2	Quarter 3	Quarter 4	
Oct 2025 - Sep 2026	5	0	1	1	7
Oct 2024 - Sep 2025	1	3	5	3	12
Oct 2023 - Sep 2024	4	1	4	2	11
Oct 2022 - Sep 2023	8	2	4	5	19
TOTAL	18	6	14	11	49

14. Further analysis follows:

Act report is received under	Under section 461G(2) of the Financial Markets Conduct Act 2013	Under section 207C of the Companies Act 1993	Under section 107 of the Incorporated Societies Act 2022	TOTAL
Oct 2025 – Sep 2026	4	3	0 ⁷	7
Oct 2024 – Sep 2025	7	5	N/A	12
Oct 2023 – Sep 2024	3	8	N/A	11
Oct 2022 – Sep 2023⁸	2	17	N/A	19
TOTAL	16	33	0	49

15. The modified audit reports received include those audit reports (and accompanying financial statements) that have been uploaded directly to the XRB website.
16. As in the previous year we have worked with the FMA and the Companies Office, including Incorporated Societies registrar, to share information on modified audit reports received, to ensure that we have a complete set of modified audit reports (as some entities may submit to the regulator and/or Companies Office and not the XRB even though there is a legal requirement to do so).
17. Appendix A provides a summary of the types of modified audit reports received during this review period and the main reason(s) for the modification.

⁷ The 2 received for Incorporated Societies are under the reporting threshold and therefore were not required to be submitted to us under the Act. This is explained in para. 10., above.

⁸ We aligned our reporting period with year-end 30 September from 1 October 2022

18. Appendix B provides a full list of the modified audit reports received in the period, including the basis for the modification and the proposed action from the Accounting Team and the Assurance Team. In all cases the proposed action is 'None', as we have not identified any modified audit reports that indicate an issue with the accounting standards or the auditing and assurance standards.

Current review period observations

19. In the current review period, of the 7 modified audit reports received:
- (a) There was one adverse opinion, relating to going concern. [NZ IAS 1 paragraphs 25–26](#) require management to assess the entity's ability to continue as a going concern, considering all available information for at least 12 months from the reporting date. The adverse opinion arose because the entity's incorrect application of the standard and not due to an issue in the accounting standard.
 - (b) There were three disclaimer opinions, relating to going concern uncertainties, and impairment assessments.
 - (c) There were three qualified opinions, covering biological assets, investments in associates, financial instrument valuation and related matters.
 - (d) Five of the modified audit reports received in the current review period relate to entities that also received modified audit reports in previous years. The recurring matters are largely entity-specific and relate to similar underlying issues, including going concern, insufficient audit evidence over accounting records, impairment or recoverability assessments, and valuation evidence. Staff have considered these recurring matters and have not identified evidence that they indicate a deficiency in the accounting standards or the auditing and assurance standards.

No current implications for the accounting standards

20. The Accounting Team's review has not identified any current implications for the accounting standards from the modified audit reports received from 1 October 2025 to 30 September 2026. The dominant pattern across the audit reports is insufficient audit evidence, weak accounting records or controls, and entity-specific challenges in applying existing requirements, rather than concerns with the requirements in the accounting standards themselves.
21. The Accounting Team did however highlight the need to closely monitor the application of the accounting standards by Incorporated Societies during this transition period.

No implications for the auditing and assurance standards

22. The Assurance Team's review has not identified any current implications for the auditing and assurance standards from the modified audit reports received from 1 October 2025 to 30 September 2026.

Question for the NZASB Board

Q1A. Does the NZASB Board **AGREE** that there are no current implications for the accounting standards from the modified audit reports received from 1 October 2025 to 30 September 2026?

Question for the NZAuASB Board

Q1B. Does the NZAuASB Board **AGREE** that there are no current implications for the auditing and assurance standards from the modified audit reports received from 1 October 2025 to 30 September 2026?

Attachments

- Modified audit reports policy, 2016
- Draft modified audit reports policy, 2025

Appendix A

Summary of modified audit reports received

The table below displays the types of modified audit reports received across the following four review periods:

A: 1 October 2025 to 30 September 2026

B: 1 October 2024 to 30 September 2025

C: 1 October 2023 to 30 September 2024

D: 1 October 2022 to 30 September 2023

Modification in relation to:	Adverse opinion				Disclaimer of opinion				Qualified opinion				Total
	Financial statements are materially misstated				Unable to obtain sufficient appropriate audit evidence				Unable to obtain sufficient appropriate audit evidence				
Review period:	A	B	C	D	A	B	C	D	A	B	C	D	
Service Performance Information	–	–	–	–	–	–	–	–	–	1	1	1	3
Accounting records	–	–	–	–	–	2	–	–	–	–	–	–	2
Opening balances - unaudited	–	–	–	–	–	–	–	1	–	–	1	–	2
Going concern	1	1	–	–	2	2	2	2	–	–	–	–	10
Valuation of inventory, or WIP including Opening balances - inventory	–	–	–	–	–	–	–	1	1	–	3	5	10
Valuation of assets (including impairment assessments): property, plant and equipment, investment property and right-of-use assets	–	–	–	–	2	–	–	–	–	2	3	5	12

Carrying amount of goodwill and other indefinite life intangibles	–	–	–	–	1	–	–	–	–	1	1	–	3
Valuation of a bank guarantee	–	–	–	–	–	–	–	–	1	–	–	–	1
Valuation of biological assets or forestry assets	–	–	–	–	–	–	–	–	1	2	1	1	5
Valuation of taxation balance	–	–	–	–	–	–	–	1	–	–	–	–	1
Valuation of related party advances	–	–	–	–	–	–	–	–	–	1	–	–	1
Valuation of cash-generating unit (division)	–	–	–	–	1	1	–	1	–	–	–	–	3
Valuation of investments including in associates and joint ventures, business combination and shares	–	–	–	–	–	–	–	4	1	–	1	4	10
Revenue and accrued revenue recognition	–	–	–	–	–	–	1	–	–	1	–	–	2
Sub-total	1	1	–	–	6	5	3	10	4	8	11	16	
Total									11⁹	14¹⁰	14¹¹	26¹²	65

⁹ 7 audit reports received in this period, but in four instances (#498, #501, #503, #508) there is more than one reason for the modification.

¹⁰ 12 audit reports received in this period, but in one instance (#496) there is more than one reason for the modification.

¹¹ 11 audit reports received in the period, but in three instances (#468, #471, and #480) there is more than one reason for the modification.

¹² 19 audit reports received in the period, but in three instances (#456, #462, and #464) there is more than one reason for the modification.

Appendix B

Modified audit reports received in the review period

This is a high-level summary of the modified audit reports that we have received.

#	Ref ¹³	Industry Balance date (BD) Audit report (AR) date	Type of modified audit opinion – summary	Accounting standard(s)	Same reason as previous year?	Proposed action - NZASB	Proposed action - NZAuASB
1.	498	Pharmaceutical products BD: 30-Jun-25 AR: 29-Sep-25	Disclaimer of opinion Insufficient audit evidence over going concern and asset impairment. The auditor could not obtain adequate support for committed funding, forecasts, goodwill, PPE, right-of-use assets and assets held for sale.	NZ IAS 1 – going-concern assessment and basis of preparation NZ IAS 36 – impairment, including goodwill NZ IAS 16 – PPE NZ IFRS 16 – ROU assets NZ IFRS 5 – assets held for sale	Yes – same going concern issue as previous year. See 483.	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.
2.	499	Financial asset investing BD: 30-Jun-25 AR: 30-Oct-25	Adverse opinion Inappropriate use of going-concern basis. Subsequent to the balance date, the bank demanded repayment of the overdraft facility of the key trading subsidiary. The subsidiary did not have the resources to repay the facility and therefore, was placed into voluntary administration alongside other subsidiaries, meaning the going-concern basis was not appropriate.	NZ IAS 1 – going-concern assessment and basis of preparation NZ IAS 10 – Events after the reporting period	Yes – related going-concern issue also arose in 2023 due to uncertainty of impact on future cashflows of the group. See 471.	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.
3.	501	Investment holdings entity BD: 30-Jun-25	Qualified opinion Insufficient component-auditor evidence for the equity-accounted investment, including the investment balance, share of profit and share of other comprehensive income.	NZ IAS 28 – equity method for investments in associates and joint ventures	N/A – New this year	None. No issues identified	None. No issues identified

¹³ Reference numbers 500 + 505 are not included in this Appendix. They relate to modified audit reports of incorporated societies – see para. 10, above, for more.

#	Ref ¹³	Industry Balance date (BD) Audit report (AR) date	Type of modified audit opinion – summary	Accounting standard(s)	Same reason as previous year?	Proposed action - NZASB	Proposed action - NZAuASB
		AR: 12-Nov-25		NZ IFRS 12 – consequential disclosures may be affected		with accounting standards.	with assurance standards.
4.	502	Forage seed breeding, production and distribution BD: 30-Jun-25 AR: 17-Dec-25	Qualified opinion Financial guarantee not fully recognised or measured under NZ IFRS 9. The auditor could not obtain reliable evidence for the guarantee's fair value.	NZ IFRS 9 – initial fair-value recognition and subsequent measurement of a financial guarantee contract NZ IAS 1 – presentation of the resulting liability	N/A – New this year	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.
5.	503	Food manufacturing and meat wholesaling BD: 31-Dec-24 AR: 19-Dec-25	Qualified opinion Insufficient audit evidence over biological assets and related meat inventory. Spring-born cattle were omitted, and fair-value support was inadequate.	NZ IAS 41 – quantity and fair value less costs to sell of biological assets NZ IAS 2 – related meat inventory and cost movements	Yes – same NZ IAS 41 fair-value evidence issue as 2023.	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.
6.	504	Mining BD: 31-Mar-26 AR: 29-Jun-2026	Disclaimer of opinion Insufficient audit evidence over recoverability of the Talisman Mine cash-generating unit, including expected gold quantities, timing of recovery and forecast cash flows.	NZ IAS 36 – recoverable amount of the Talisman Mine cash-generating unit NZ IFRS 6 – exploration and evaluation assets NZ IAS 1 – significant judgements and estimation-uncertainty disclosures	Yes – same mine-CGU recoverability issue as 2025. See 492.	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.

#	Ref ¹³	Industry Balance date (BD) Audit report (AR) date	Type of modified audit opinion – summary	Accounting standard(s)	Same reason as previous year?	Proposed action - NZASB	Proposed action - NZAuASB
7.	506/ 507/ 508 ¹⁴	Food, health and cosmetic products, and winery and vineyards BD: 31-Mar-26 AR: 30-Jun-26	Disclaimer of opinion Insufficient audit evidence over going concern and right-of-use asset impairment, including shareholder funding, strategic cash-flow assumptions and recoverability of right-of-use assets.	NZ IAS 1 – going-concern basis and material-uncertainty assessment FRS-44 – going-concern disclosures NZ IAS 36 – impairment of assets; NZ IFRS 16 – ROU assets	Yes – going concern also arose in 2025; earlier records/control issue was different. See 493.	None. No issues identified with accounting standards.	None. No issues identified with assurance standards.

¹⁴ #506, #507 and #508 relate to the same entity being submissions of the same set of financial statements, therefore have been counted as one unique entry in the analysis.