



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

New Zealand Auditing and Assurance Standards Board

MEETING PACK

for

NZAuASB Board Meeting - SUPPLEMENTARY (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 - SUPPLEMENTARY (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

8.2 Issues paper

1:30 pm (15 min)

For Discussion

Paper

8.3 Valuation evidence guide - Project plan

1:45 pm (15 min)

For Noting

SUPPLEMENTARY

Supporting Documents:

8.3.a	8.3 Valuation-evidence-guide-Project-plan MIS_10_2026.docx	7
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8.4 Draft valuation evidence guide

2:00 pm (15 min)

For Discussion

SUPPLEMENTARY

Supporting Documents:

8.4.a	8.4 Draft-valuation-evidence-guide-MIS_10_2026.docx	12
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9. Less complex entities response (PUBLIC)

9.1 Summary paper

2:15 pm (10 min)

Lisa Thomas

For Noting

Paper

9.2 Draft response

2:25 pm (10 min)

For Decision

Paper

9.3 Developing CAS assessment

2:35 pm (15 min)

For Noting

SUPPLEMENTARY

Supporting Documents:

9.3.a	9.3 Draft CAS-assessment-file-note_10_2026.docx	32
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9.4 Submissions received

2:50 pm (10 min)

For Noting

SUPPLEMENTARY

Supporting Documents:

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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

10.2 Developing response issues

3:20 pm (10 min)

For Discussion

Paper

11. Sustainability assurance implementation (PUBLIC)

11.1 Summary paper

3:30 pm (10 min)

Anna Herlender

For Noting

Paper

11.2 More complex illustrative assurance report

3:40 pm (15 min)

For Discussion

Paper

12. Technology (PUBLIC)

12.1 Summary paper

3:55 pm (10 min)

Lisa Thomas

For Noting

Paper

13. Modified audit reports (PUBLIC)

13.1 Summary paper

4:05 pm (5 min)

Bruce Mcniven

For Noting

Paper

13.2 Current and draft modified audit report policies

4:10 pm (5 min)

For Noting

SUPPLEMENTARY

Supporting Documents:

13.2.a	13.2 i Policy-on-modified-audit-reports-Aug-2016.pdf	72
13.2.b	13.2 ii DRAFT Modified Audit Reports - XRB Policy_2025.pdf	79

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

Project Plan

Guidance – Auditing the fair value of a fund's investments in investee funds

Overview of the Project

Information Gathering/Background

ASIC published its surveillance report [816 Accounting for your super: ASIC's review into the financial reporting and audit of super funds](#) in September 2025. The report highlights areas where the quality of financial reporting and audits of registrable superannuation entities can be improved. The report highlighted possible challenges relating to audit evidence supporting the fair value of investments held in unlisted Managed Investment Schemes and similar investee funds (investee funds) that are externally managed. These concerns are relevant where the evidence supporting the valuation may be needed in relation to the underlying assets of the investee fund and there may be limitations on obtaining information from the investee fund or its manager, and assurance from its auditor.

To inform the project, staff held discussions with the GS 007 | EG Au8 PAG members, the FMA and New Zealand audit firms. We also considered FMA audit quality monitoring reports issued in previous years that relate to this matter.

This work identified a need for audit guidance on obtaining sufficient appropriate audit evidence relating to the fair value of a fund's¹ investment in an investee fund. The NZAuASB considered the need for guidance in April and June 2026 and agreed that guidance should be developed.

Consistent with the Principles of harmonisation of New Zealand and Australian Standards, XRB staff and representatives of the Office of the AUASB will continue to work together to achieve consistency where appropriate across jurisdictions.

Stakeholder engagement

Key stakeholders impacted by the project are:

- Auditors providing audit and assurance services in the investment management services industry; and
- Indirectly:
 - The funds being audited; and
 - The regulators of auditors and funds.

Objective and Scope

Project Objective

Regulators have identified concerns that auditors may not always obtain sufficient appropriate audit evidence to support the fair value of investee funds. In these circumstances, auditors may have limited direct access to reliable information about the investee fund's valuation processes, underlying investments, assumptions and supporting data.

The objective of the project is to develop guidance to assist auditors in determining the audit evidence that is needed and the procedures that may be appropriate when auditing the fair value of a fund's investment in an investee fund.

Project Scope

The guidance will address the audit evidence implications where a fund's financial statements include investments in unlisted investee funds that are externally managed. The scope focuses on circumstances where access to direct, reliable and timely evidence about fair value may be

¹ Reference made to "fund" is meant to include any form of collective investment vehicle, for example, Managed Investment Schemes, KiwiSaver Schemes, Unit Trusts, etc.

constrained by the investment structure or information available from the investee fund or its manager.

Investments within scope	Audit evidence implications
The fund holds an investment in an unlisted investee fund;	Unlisted investee funds are not publicly traded and may be valued periodically, rather than daily, without transparency as to the internal calculation of unit prices and units on issue. This can limit observable pricing information and increases the need for audit procedures focused on the reliability of the investment value. Where the investee fund is externally managed, information about valuation processes, controls assumptions and supporting data may be held by the manager or other third parties, which affects the accessibility of such information.
The investee fund is externally managed; and	
The auditor's access to direct, reliable or timely valuation evidence may be constrained.	
Characteristic affecting audit evidence	Audit evidence implications
The investee fund may or may not prepare financial statements.	The availability and reliability of financial information, and whether it has been audited, may affect the nature and extent of audit evidence available to the fund auditor.
Any financial statements prepared by the investee fund may be audited or unaudited.	
The investee fund's reporting date may differ from that of the fund.	Different reporting dates may require evidence about the movements in fair value between the investee fund's reporting date and the fund's reporting date.
The investee fund may hold underlying investments across domestic and/or foreign, listed and unlisted investment classes.	The nature of the underlying investments may affect the transparency, frequency and reliability of pricing information.

The project plan considered whether the guidance should include audit considerations for financial statements disclosures about investments in investee funds, including the fair value hierarchy disclosures, where those disclosures are affected by the audit evidence implications described above. This will focus on the auditor's assessment of whether the disclosures are consistent with the applicable financial reporting framework and supported by sufficient appropriate audit evidence. At this time staff do not intend to prioritise this guidance for inclusion and issue by December 2026.

The project is limited to audit guidance for the auditor of a fund's financial report. It will not address financial reporting guidance for the preparer of a fund's financial report. The project scope may be refined through the process. Any proposed change that would materially affect the project scope or timing of the project will be discussed with the Board before being pursued.

Project Governance

New Zealand working group

To assist the NZAuASB with the project, a working group will advise on the development of the guidance. The working group is chaired by the NZAuASB deputy chair.

Member	
Chris Barber John Bastian	PwC
Matt McQueen	BDO
Rebecca Palmer (Chair)	NZAuASB Industry
Tej Sethi	Grant Thornton
James Sheperd	Deloitte
Gavin Silva Andrew Naughton	KPMG
Emma Winsloe	EY

Risks/Issues

Risk/Issue to meeting project objective	Planned mitigation
The project scope expands beyond the approved objective, including matters more appropriately addressed through financial reporting guidance or standard setting activity.	Maintain a clear scope statement and out-of-scope section in the project plan. Use the working group to test whether the emerging matters are within scope and escalate any material scope change or timing impact to the NZAuASB.
The guidance does not sufficiently address the practical audit evidence challenges auditors face when access to investee fund valuation information is constrained.	Discuss the scope with all stakeholders, taking into account the proportionality, cost implications and the value the guidance is expected to add. Draw on regulator findings, working group input, audit firm experience and industry consultation to identify common evidence constraints and practical responses. Test draft guidance against realistic scenarios involving limited access to valuation processes, assumptions and supporting data.
The guidance is perceived as too prescriptive or as creating requirements beyond the auditing standards.	Frame the guidance as principles-based and anchored to existing auditing standards. During guidance development actively consider whether information included goes beyond the existing standards' requirements. Obtain working group input, Board views and feedback from industry and regulators before consultation and approval.
Australian and New Zealand stakeholder expectations differ, reducing the ability to produce useful guidance, that aligns across the Tasman, in a timely manner.	Use the working group to identify jurisdiction-specific considerations early. Ensure that regular touch points with AUASB staff are used to communicate direction. Maintain common guidance where appropriate and clearly identify any jurisdictional context that affects application. Cross appointments to the NZAuASB and AUASB is an opportunity for the boards to reflect on commonalities and any differences if these arise.

Targeted Completion Date

We plan to provide a final draft of the guidance to the NZAuASB for review and approval at their December 2026 board meeting (refer action plan below). In New Zealand, most affected entities have March year ends, while in Australia most affected entities have June year ends. These different reporting periods create different timing pressures: New Zealand stakeholders are seeking earlier guidance, while Australian stakeholders may accept a later project deadline. It is important that the guidance is issued before the annual audits commence to enable auditors to use the guidance during the 2027 reporting periods. The timeline reflects the need to be responsive to stakeholder calls for timely guidance. An inclusive due process that includes the input from regulators, practitioners and industry will be critical to meet the deadline.

This timeline should closely follow New Zealand regulator inspection findings reports that are expected in the 4th quarter of 2026.

Action Plan

Action plan steps are outlined in the table below.

Date	Action required from joint project team
<i>5 August 2026</i>	<i>Seek NZAuASB approval of the joint project plan and approval for the project team to discuss the key project scope topics, to inform development of the 1st draft, with industry bodies, regulators and practitioners.</i>
<i>26 August 2026</i>	<i>Circulate the draft guidance outline to the working group and the FMA.</i>
<i>26 August 2026</i>	<i>Discuss the project with the FMA.</i>
<i>3 September 2026</i>	<i>Working group meeting on the outline of the draft guidance</i>
<i>4-18 September 2026</i>	<i>Commence work on the draft guidance internally</i>
<i>7 September 2026</i>	<i>Discuss the project with industry representatives.</i>
<i>Week commencing 21 September 2026</i>	<i>Discuss the draft guidance with the working group.</i>
<i>Week commencing 28 September 2026</i>	<i>Revise and finalise the draft for consultation and Board consideration.</i>
<i>1 October 2026</i>	<i>Circulate the draft to the NZAuASB, working group, FMA and relevant industry stakeholders.</i>
<i>14 October 2026</i>	<i>Discuss the draft guidance at NZAuASB meeting.</i>
<i>2–6 November 2026</i>	<i>Consider feedback from all stakeholders and revise the draft as appropriate.</i>
<i>Week commencing 9 November 2026</i>	<i>Working group meeting and fatal-flaw review.</i>
<i>By 19 November 2026</i>	<i>Finalise and circulate the final draft to the NZAuASB.</i>
<i>3 December 2026</i>	<i>Seek NZAuASB approval.</i>
<i>7-11 December 2026</i>	<i>Finalise the guidance for publishing</i>
<i>11 December 2026</i>	<i>Publish the guidance</i>

Auditing investments in managed funds

Valuation evidence guide

December 2026

Auditing investments in managed funds: Valuation evidence guide**Status and disclaimer**

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Auditing investments in managed funds: Valuation evidence guide

Scope of this guide

This guide assists auditors in applying the auditing standards issued by the XRB when obtaining audit evidence about the fair value of an investor fund's investments in unlisted investee funds.

Investment funds in New Zealand increasingly invest through other managed funds and investment structures. In these arrangements, information relevant to the valuation of investments may be maintained by fund managers, administrators, custodians and other parties. Reporting dates may not align and auditors may have limited direct access to information about underlying investments.

These circumstances can create challenges in obtaining sufficient appropriate audit evidence over investment valuations. This guide assists auditors in applying the auditing standards in those circumstances.

The guide focuses on circumstances where access to direct, reliable or timely audit evidence may be constrained. It describes possible sources of information and audit procedures that may contribute to a body of audit evidence. It does not prescribe required procedures, a checklist or a particular audit approach.

The guide does not deal with developing an auditor's point estimate or range to evaluate the fair value of an investment. It also does not provide financial reporting guidance for preparers or guidance on determining fair value under the applicable financial reporting framework.

Although developed primarily for audits of investor funds with investments in investee funds, the principles in this guide may also be useful in other audits where an entity holds significant investments in managed funds.

Key messages

Identify what is being valued

The subject matter of the auditor's valuation procedures is generally the investor fund's interest in each investee fund, not the investee fund's underlying assets and liabilities. Information about underlying holdings may support the valuation without changing that unit of account.

Start with management

Start by understanding management's valuation process, governance, monitoring activities and the information management uses to support the reported fair value. This understanding provides the foundation for identifying risks and determining what information may be available to support the valuation.

Understand available information

Information may be maintained by investee funds, fund managers, administrators, custodians and other service providers. Understanding what information is available, who maintains it and any limitations on access is an important part of designing an appropriate audit response.

Different sources of information may serve different purposes. For example, controls reports may contribute to the auditor's understanding of the investment structure, risk assessment, evaluation of controls or the overall body of audit evidence, depending on the circumstances.

Risk assessment is key

The nature and extent of audit work depend on the assessed risks of material misstatement. Factors such as complexity, subjectivity, estimation uncertainty, management bias, illiquidity and reporting-date differences may affect both the information available and the persuasiveness of the resulting audit evidence.

Build evidence from multiple sources

No single source of information is likely to be sufficient in all circumstances. Auditors build a body of audit evidence from information obtained from different sources and evaluate how that information corroborates or contradicts management's assertions.

Apply professional judgement and scepticism

Auditing investments in managed funds: Valuation evidence guide

Professional judgement and professional scepticism are critical when evaluating the relevance and reliability of information, resolving contradictory information and determining whether sufficient appropriate audit evidence has been obtained.

Consider information limitations

Where limitations in available information prevent the auditor from obtaining sufficient appropriate audit evidence, the auditor considers whether additional information can reasonably be obtained and the implications for the auditor's report.

Regulatory and market context

Investment funds in New Zealand commonly invest through other managed funds. These arrangements may involve retail funds investing in wholesale or other investee funds in New Zealand or overseas. In some cases, the investor fund and investee fund may share the same fund manager, administrator or auditor.

Retail funds, wholesale funds and overseas investee funds may be subject to different reporting and audit requirements. They may also have different reporting dates. These differences can affect the information available to the auditor.

The parties involved in these arrangements typically have different roles and responsibilities. Depending on the structure, these may include the fund manager, supervisor, custodian, registry provider, administrator, auditor and other service providers. Information relevant to the valuation of investments may be maintained by one or more of these parties.

Investments in private assets are becoming more common in New Zealand. The Financial Markets Authority (FMA) has observed increasing exposure to private equity, private debt, unlisted property and infrastructure investments within KiwiSaver portfolios.¹ While these investments currently represent a relatively small proportion of total assets under management,² the FMA notes that private assets are increasingly being added to portfolios and may present valuation, liquidity and transparency challenges.³

Private assets are often held through investment structures that are further removed from the investor fund. Depending on the circumstances, information about the underlying investments may be obtained through investee funds, custodians, limited partnership arrangements, investment managers or other parties.

Audits support confidence in the reported value of investments held by funds. Investors, supervisors, regulators and other stakeholders rely on financial statements and audit reports when assessing the stewardship of invested capital. As investment structures become more complex and information is increasingly maintained by third parties, obtaining sufficient appropriate audit evidence over investment valuations becomes increasingly important.

Financial reporting foundation

Identify the investment being valued (determine the unit of account)

The auditor first identifies the asset for which the investor fund has recognised a fair value measurement. This determines the unit of account to which the audit procedures apply.

The unit of account is the level at which an asset or liability is aggregated or disaggregated for recognition purposes.⁴ The applicable New Zealand equivalent to International Financial Reporting Standard (NZ IFRS) and International Accounting Standard (NZ IAS) determine the unit of account. NZ IFRS 13 then provides the framework for measuring the fair value of that asset or liability.⁵

¹ FMA KiwiSaver Annual Report 2025, Private Assets in KiwiSaver section.

² FMA KiwiSaver Annual Report 2025, Private Assets in KiwiSaver section.

³ FMA KiwiSaver Annual Report 2025, Private Assets in KiwiSaver section.

⁴ NZ IFRS 13, *Fair Value Measurement* – Appendix A, definition of “unit of account”

⁵ NZ IFRS 13 – paragraphs 13–14

Auditing investments in managed funds: Valuation evidence guide

An investment entity measures its interest in each investee fund

For an investor fund within the scope of this guide, the unit of account is generally each interest held in an investee fund.

Investment entities measure and evaluate substantially all of their investments on a fair value basis.⁶ NZ IFRS 10, NZ IAS 27 and NZ IAS 28 are the applicable NZ IFRS and NZ IAS that require or permit certain interests in subsidiaries, associates and joint ventures to be measured at fair value through profit or loss in accordance with NZ IFRS 9.⁷

As a result, the investor fund recognises and measures its interest in the investee fund as an investment in its own right. The investor fund does not recognise and measure the investee fund's underlying assets and liabilities as though it held them directly.

Measure the fair value of the interest in the investee fund

Once the unit of account has been determined, NZ IFRS 13 applies to the fair value measurement. Fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date.⁸

Because the unit of account is the investor fund's interest in the investee fund, the fair value measurement is directed at that interest. It is not a separate measurement by the investor fund of each underlying asset and liability held by the investee fund.

Information about the investee fund's net asset value, unit price, underlying holdings and valuation processes may provide audit evidence about the fair value of the investor fund's interest. Using that information does not change the unit of account.

Audit evidence decision tree

The decision tree illustrates how the nature and extent of audit work may vary depending on the risks identified and the information available to the auditor. It does not prescribe a sequence of required procedures.

Its purpose is to help auditors consider how assessed risks and the available information may affect the nature and extent of further audit procedures, including whether procedures relating to underlying investments may be appropriate.

⁶ NZ IFRS 10, *Consolidated Financial Statements* – paragraph 27

⁷ NZ IFRS 10 – paragraphs 31–32; NZ IAS 27, *Separate Financial Statements* – paragraph 11A; NZ IAS 28, *Investments in Associates and Joint Ventures* – paragraphs 18–19; NZ IFRS 9, *Financial Instruments*

⁸ NZ IFRS 13, paragraph 9

Auditing investments in managed funds: Valuation evidence guide

Scope: Fund invests in another unlisted managed fund

Step 1
Understanding

Identify the investment being valued (i.e., determine the unit of account)

Understand:

- Nature of the investee funds (e.g., NZ wholesale, global funds, and any related parties)
- Underlying asset classes (e.g., valuation methodologies and key assumptions/inputs)
- How the unit price is derived (e.g., who holds the information and any limits on access)
- Controls at the investor fund (e.g., valuation process, governance and oversight, and the evidence used to support fair value)

Step 2
Identify and
assess risk

Assess the complexity, subjectivity, and estimation uncertainty involved, risk of management bias, indicators of stale pricing, illiquidity and significant market movements

Lower end

Spectrum of inherent risk

Higher end

Consider the relevance and reliability of controls reports

Step 3
Respond based
on available
information

Controls reports are available

Period
overlaps

Period gaps

Information about:

- valuation or unit-pricing process
- completeness and accuracy of information provided by the investee fund or its service providers
- the assurance work performed, any control deviations or modifications to the opinion

Bridging letter
and indicators
of changes in
controls, if any

Note:

Controls reports may be available irrespective of the availability of audited financial statements. Their use in response to risk is based on relevance and reliability considerations in step 2

Audited financial statements are available

Audited information
is currentAudited information is not
currentAudited financial statements are
unavailable

Information about:

- financial reporting framework and accounting policies applied
- critical assumptions and judgements
- the audit work performed and any modifications to the opinion

Confirmed unit price

Confirmed NAV /
redemption priceInformation about
redemption price:

- details related to executability
- details related to restrictions, if any
- details related to outstanding distributions, if included in unit price
- details of unit pricing or valuation errors, if any
- details of outstanding commitments, if any

The published unit price
struck at the investee fund
reporting dateComparative information
from relevant benchmarksUnderlying NAV and details related
to holdingsInformation about the existence and
valuation of material underlying
investments and other account
balancesInformation about the
reliability of the
redemption price:

- historical valuations and subsequent transaction prices
- realisation events (e.g., asset disposals, fund wind-ups, capital returns)

Current management accounts or
the most recent internal reporting
pack

Details about:

- which assets are externally valued and most recent date
- any impairments, write-downs or fair value adjustments

Information supporting material
valuations:

- NAV breakdown by major asset class
- external valuation reports
- internal valuation committee papers
- key assumptions and inputs details

Specialist input from an auditor's
expertStep 4
Evaluate evidence
and conclude

Evaluate the persuasiveness and sufficiency and appropriateness of the cumulative body of evidence and financial statements disclosures

Consider the implications of remaining limitations

Conclude

Auditing investments in managed funds: Valuation evidence guide

Step 1: Start by understanding management's valuation process, governance and evidence

The auditor begins by understanding management's valuation process, the governance and oversight applied, the information available from investee funds and service providers, any limitations on access to information, and the evidence management used to support the reported fair value. This understanding helps the auditor identify and assess risks of material misstatement, identify potential sources of audit evidence and evaluate the reliability of information that may be used as audit evidence.

Understand the nature of the investee funds

The auditor seeks to understand the nature and structure of the investee funds and the parties involved. This understanding helps the auditor identify available sources of information.

This understanding may include:

- the legal and investment structure;
- whether the investee fund is externally managed;
- whether valuation decisions are made by parties that are independent of the investor fund;
- the nature of any related-party relationships and how conflicts of interest are managed;
- the identity and reputation of the fund manager;
- the identity and reputation of administrators, custodians and other service providers;
- outsourcing arrangements;
- the availability of information from the investee fund and the parties involved in its operation, including any restrictions on access to information, for example audited financial statements, controls reports and other information.

Understand underlying asset classes

The auditor seeks to understand the underlying investments held by the investee fund, the applicable financial reporting requirements and the valuation challenges they may present. This understanding helps the auditor identify where estimation uncertainty, complexity or subjectivity may exist and the extent to which information about the underlying investments is likely to be available to the auditor.

This understanding may include:

- the underlying asset classes;
- valuation policies, methodologies and valuation techniques used (including whether they are based on recognised industry guidance such as the IPEV Valuation Guidelines⁹);
- how management determines that reported net asset value or redemption prices represent fair value at the measurement date;
- governance arrangements over valuation decisions, including valuation committees, review processes and the use of external valuation specialists;
- key assumptions and inputs;
- the extent of estimation uncertainty; and
- the availability of observable market information.

Understand how the unit price at the investee fund is derived

The auditor seeks to understand how the value recognised by the investee fund is determined. This understanding helps the auditor identify how the unit price is calculated, what information may be available to support it, and which parties produce that information.

⁹ IPEV Valuation Guidelines – International Private Equity and Venture Capital Valuation Guidelines

Auditing investments in managed funds: Valuation evidence guide

This understanding may include:

- how the investee fund calculates its net asset value and unit price;
- whether third-party administrators are involved;
- the valuation and unit-pricing processes used;
- the use of external valuers or pricing sources; and
- whether controls reports are available and what they cover.

Understand controls at the investor fund

The auditor seeks to understand how management obtains comfort over the value of investments in investee funds. This understanding helps the auditor assess the reliability of information used by management and identify sources of audit evidence that may be available.

This understanding may include management's:

- initial due diligence performed before investing;
- ongoing monitoring activities (review of information received from investee funds and service providers and governance of the investee fund); and
- process for identifying and responding to valuation concerns.

This understanding provides the foundation for identifying and assessing risks of material misstatement and determining what information may be available to support the reported fair value.

Step 2: Identify and assess the risks of material misstatement

To identify and assess risks of material misstatement, the auditor considers the size and characteristics of the investment, and management's rationale, judgements and processes supporting the reported fair value.

Assess the complexity, subjectivity and estimation uncertainty involved

The auditor considers factors that may increase the susceptibility of the reported value to material misstatement. Complexity, subjectivity and estimation uncertainty often interact and may affect both the reliability of available information and the persuasiveness of the resulting body of audit evidence.

Complexity

Examples:

- multi-layer investment structures
- significant use of special purpose vehicles
- multiple service providers
- overseas structures
- complex redemption arrangements
- tax structures affecting value
- related-party relationships

Subjectivity

Examples:

- selection of valuation methodologies or techniques
- significant judgement in valuation methodologies
- reliance on assumptions
- valuations that depend on significant unobservable inputs

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- internally generated estimates

Estimation uncertainty

Examples:

- wide range of possible outcomes
- infrequent transactions
- illiquid investments
- reliance on forward-looking assumptions
- significant time between valuation events

Assess risk of management bias

The auditor considers whether incentives, pressures or opportunities could influence the judgements applied in determining fair value.

Possible factors include:

- fees based on NAV
- performance fees
- remuneration linked to investment performance
- pressures to meet return targets
- related-party relationships
- selective use of information
- repeated valuation outcomes that consistently favour one direction
- history of valuation or unit-pricing errors

Assess indicators of stale pricing, illiquidity and significant market movements

The auditor considers whether information used in determining fair value remains relevant at the investor fund's reporting date.

Possible factors include:

- significant time elapsed since the underlying valuation date
- infrequent valuation cycles
- significant market movements after the valuation date
- redemption restrictions
- lock-up periods
- side-pocket arrangements
- absence of recent transactions
- changes in economic conditions
- changes in sector-specific conditions

Consider the relevance and reliability of controls reports

The auditor considers whether controls reports are available and relevant to the risks identified.

Controls reports may assist the auditor in understanding the role of service organisations, the responsibilities of different parties and the controls that may be relevant to the risks identified. This understanding may assist the auditor in identifying and assessing risks of material misstatement.

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Controls reports are often prepared for the benefit of the investee fund and its auditor rather than the investor fund auditor. The auditor therefore considers whether the report is relevant to the identified risks and whether there are any limitations that may affect its use in the circumstances.

Step 3: Respond to risk based on available information

The auditor develops a response to the assessed risks based on the information available in the circumstances. This guide identifies possible sources of information and procedures that may contribute to a cumulative body of audit evidence. The examples are illustrative, not required procedures or a checklist. The auditor uses professional judgement to select and adapt procedures that respond to the assessed risks and to determine whether the resulting body of audit evidence is sufficient and appropriate.

Where controls reports are available

Where controls reports are available, they may contribute to the auditor's response to the assessed risks and form part of the cumulative body of audit evidence.

Controls reports may provide the auditor with information about controls over valuation, unit-pricing processes and the completeness and accuracy of information used in those processes.

The auditor evaluates the report in the context of the identified risks and the intended use of the report. This evaluation may include consideration of the scope and period of the report, the service auditor's competence and independence, the suitability of the criteria used, the controls tested, identified deviations, complementary user entity controls and the treatment of subservice organisations.

Depending on its scope and coverage, a controls report may contribute to the body of audit evidence by providing information about the reliability of information produced by the investee fund or its service providers.

Controls reports may contribute to audit evidence, but they do not necessarily eliminate the need for other procedures, for example where the report period does not substantially overlap the investor fund's financial year or where the report does not address controls relevant to the risks identified.

Where audited financial statements are available

Information available from the audited financial statements

Audited financial statements may provide the auditor with information about how the investee fund has measured and disclosed its investments and the judgements applied in determining fair value.

A review of the financial statements may assist the auditor in:

- confirming financial reporting framework and accounting policies applied as they relate to valuation;
- understanding critical assumptions and judgements; and
- identifying whether the auditor's report is modified and whether there is any key audit matters related to valuation.

If the investee fund and investor fund use different auditors, the investor fund auditor evaluates the relevance and reliability of information arising from the investee fund audit. Depending on how that information is used, this may include considering the investee fund auditor's competence, capabilities and objectivity, the applicable ethical and professional requirements, the scope of the audit, and whether the auditor's report contains a modified opinion or other matter relevant to the valuation.

Where audited information is current at the investor fund's reporting date

Where reporting dates align and the assessed risk is at the lower end of the spectrum, information available at the investee fund's reporting date may provide the auditor with persuasive audit evidence. The auditor may consider information available such as:

Confirmed unit price information

A confirmation of the unit price obtained from the investment administrator may provide the auditor with information about the value recognised by the investor fund.

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Consistency between the confirmed and audited unit prices at reporting date

The audited price may corroborate the confirmed price used by the investor fund. Depending on the circumstances and the risks identified, the auditor may conclude that little or no additional work is necessary.

Where audited information predates the investor fund's reporting date

Where reporting dates do not align and the assessed risk is not at the higher end of the spectrum, information available after the investee fund's reporting date may assist the auditor in evaluating whether the reported value remains appropriate.

The longer the period between those dates, and the greater the volatility of the underlying investments, the greater the possibility that conditions, assumptions or market circumstances may have changed, which could indicate that adjustments to the fair value may be necessary.

NAV / redemption price at investee fund's reporting date

A confirmation of the NAV or redemption price may provide the auditor with information about the value recognised by the investor fund. The relevance and reliability of this information depend on the circumstances, including whether the redemption price is executable and how closely it reflects current conditions at the investor fund's reporting date. Depending on the circumstances, the auditor may seek additional confirmation and information from the investee fund or its investment manager, such as:

- Whether the redemption price is an executable price.
- Recent transaction prices (to support executability).
- Whether there are any redemption restrictions.
- Redemption restriction details, if any.
- Whether the unit price includes outstanding distributions.
- Outstanding distribution details, if any.
- Whether there were any unit pricing or valuation errors during the year or after year-end.
- Unit pricing or valuation error details, if any (nature, quantum and timing of the error and the corrective action taken).
- Whether there are any outstanding commitments.
- Details of outstanding commitments, if any.

Information relevant to whether the redemption price represents fair value

The financial statements review and other information obtained may assist the auditor in determining whether the NAV or redemption price is based on the fair value of the investee fund's underlying assets.

Whether any adjustments are required depends on the confirmation responses and additional documentation received and the auditor's further procedures performed thereon.

Additional information may be available that assists the auditor in evaluating the reliability of valuations provided by the investee fund.

Back testing

Back testing may involve comparing the last audited NAV / unit price with the published unit price struck at the same date.

The auditor may consider whether the results indicate a pattern of systematic over- or under-valuation that could suggest bias.

Differences identified through back testing may provide information about the reliability of valuations produced by the investee fund and assist the auditor in determining whether additional procedures are necessary.

Non-executable redemption prices

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Where the investment manager confirms that the redemption price is not currently executable (e.g. due to redemption gates, lock-up periods, side-pocketing or fund suspension):

- Management evaluates the effect of the restriction under the applicable financial reporting framework, including whether the restriction is a characteristic of the asset and how market participants would price the investment at the measurement date. The auditor evaluates management's assessment, including the terms and duration of the restriction, available transaction or market evidence, liquidity and transferability, and whether the resulting measurement and disclosures comply with the applicable financial reporting framework.
- The auditor may consider whether an adjustment to the reported NAV is necessary where the redemption price is not currently executable.
- If no adjustment is made, the auditor considers whether a potential misstatement may exist and whether it could be material to the investor fund's financial statements.
- For funds with material allocations to illiquid investments where redemption is restricted, the auditor may also consider whether this has implications for the investor fund's liquidity position and its ability to meet redemption obligations.

Unit pricing errors

Information about unit pricing or valuation errors may assist the auditor in evaluating the reliability of the valuation process. Relevant considerations may include whether:

- the error has been corrected in the year-end unit price.
- the pattern or magnitude of errors indicates a systemic weakness in the investment manager's pricing process that affects the reliability of the year-end price.
- the error, if uncorrected, could result in a misstatement material to the investor fund.

Comparative information from relevant benchmarks

Comparative information from relevant benchmarks may assist the auditor in evaluating whether changes in value appear consistent with available market information.

Depending on the circumstances, the auditor may compare movements in NAV between the last audited financial statements and year-end against relevant benchmarks, market indices or other available information.

Indicators of stale pricing, illiquidity, significant market movements post-valuation date

Information obtained may indicate that the value recognised by the investee fund is based on information that is no longer current at the investor fund's reporting date. Depending on the circumstances, the auditor may consider:

- the length of time between the underlying valuation date and the investor fund's reporting date
- significant market movements after the valuation date
- changes in economic or sector-specific conditions
- subsequent transactions involving the investee fund or its underlying investments
- redemption restrictions, lock-up periods or other indicators of illiquidity.

Where audited information predates the reporting date and assessed risk is higher

Additional information where risk is assessed at the higher end of the spectrum

Where risk of material misstatement is assessed at the higher end of the spectrum, the auditor may consider obtaining additional information or performing additional analysis to evaluate the reliability of valuations provided by the investee fund. Where the available information is less current or where estimation uncertainty is higher, additional information may be necessary to evaluate whether the reported value remains appropriate.

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Examples may include comparing historical valuations to subsequent transaction prices, asset disposals, fund wind-ups, capital returns or other realisation events.

Where audited financial statements are unavailable

Information that may be relevant when assessed risk is not higher

Where audited financial statements are unavailable, the auditor may need to obtain information from other sources to evaluate the reported value.

Underlying NAV and holdings information

Underlying NAV and holdings information may provide the auditor with information about the investee fund's underlying investments, including their nature, significance and composition. This information may assist the auditor in identifying material investments, understanding the factors affecting value and determining whether additional procedures, including look-through procedures, may be necessary.

The relevance and reliability of the information depend on the circumstances, including its level of detail, the date to which it relates and the source from which it was obtained.

Information about material underlying investments and account balances

Look-through procedures may assist the auditor in obtaining evidence about the existence and valuation of material underlying investments and other material account balances.

Additional information that may be relevant when assessed risk is higher

Where risk is assessed at the higher end of the spectrum, the auditor may consider obtaining additional information and performing additional procedures.

Where information is limited, less reliable or subject to greater estimation uncertainty, additional information may be necessary before the auditor can conclude on the reported value.

Current management accounts and internal reporting information

Current management accounts and internal reporting information may provide the auditor with more recent information about the investee fund's financial position, investment performance and significant valuation movements.

This information may assist the auditor in identifying significant changes, assessing whether previously obtained information remains relevant and determining whether additional audit evidence may be necessary.

The relevance and reliability of this information depend on the circumstances, including the nature and source of the information, the controls over its preparation and whether other information corroborates it.

Information about external valuations and significant valuation changes:

Information about external valuations and significant valuation changes may assist the auditor in understanding how material valuations have changed and whether those changes are consistent with other available information.

- Which assets are externally valued and most recent date
- Whether there were impairments, write-downs or significant fair value adjustments

Detailed information supporting material valuations:

Detailed information supporting material valuations may provide the auditor with additional evidence about the methodologies, assumptions and inputs used in determining fair value.

- NAV breakdown by major asset class
- Valuation reports for material assets
- Internal valuation committee papers
- Documentation supporting key assumptions and inputs

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Specialist input from an auditor's expert

Depending on the circumstances, the auditor may request further valuation support from management or involve an auditor's expert to assist in obtaining and evaluating audit evidence.

Determine appropriateness of the investor fund's disclosures

The auditor considers whether the investor fund has appropriately classified and disclosed the investment based on the auditor's understanding of the investee fund, its underlying assets and the applicable financial reporting requirements.

Step 4: Evaluate the persuasiveness of the body of audit evidence and conclude

Evaluate the body of audit evidence

The persuasiveness of audit evidence differs. Some evidence may be persuasive on its own, while other evidence may be persuasive only when considered together with other information and audit procedures.

The auditor evaluates the body of audit evidence as a whole. This evaluation considers the relevance and reliability of the information obtained, how different sources of evidence corroborate or contradict one another, the results of audit procedures and whether the evidence obtained responds to the risks identified.

Professional judgement and professional scepticism are important when evaluating whether the body of audit evidence as a whole is sufficiently persuasive to support the auditor's conclusion. Appropriate audit documentation helps an experienced auditor understand the work performed, the evidence obtained and the basis for the conclusions reached.

Consider whether the audit evidence is sufficient and appropriate

The auditor considers whether the available information, together with the procedures performed, provides a sufficiently persuasive body of audit evidence to support the reported value.

In some circumstances, limitations in the available information may arise from the nature of the investment structure rather than from the audit procedures performed. For example, information about underlying investments may not be available, access to information may be restricted, reporting dates may not align, or valuation information may be subject to significant uncertainty.

The auditor considers whether additional information could reasonably be obtained from management, investee funds, service providers or other relevant parties before concluding that a limitation in available information exists.

The auditor also considers the information management used to support the reported value, how management addressed limitations in available information and whether management's conclusions remain reasonable in light of the information obtained during the audit.

Where significant limitations in available information exist, the auditor considers whether management has obtained sufficient information to support the reported value and whether those limitations have implications for the financial statements or the auditor's report.

Consider the implications of remaining limitations

If a significant limitation in available information remains after considering the information available from management, investee funds, service providers and other relevant parties, the auditor considers:

- whether the limitation affects the auditor's ability to conclude on the valuation of the investment; and
- whether there are implications for the auditor's opinion or report.

Conclude

The auditor documents the basis for concluding that sufficient appropriate audit evidence has been obtained, including the key sources of evidence relied upon and how the evidence obtained supports the conclusion reached.

In reaching a conclusion, the auditor considers management's basis for supporting the reported value, including how management addressed any limitations in available information.

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Where sufficient appropriate audit evidence has not been obtained, the auditor documents the scope limitation assessment and its impact on the audit opinion.

Illustrative worked example for specific circumstances

The illustrative worked example below shows one combination of assessed risks and evidence circumstances. The same evidence circumstances may result in a different audit response depending on the nature of the underlying investments, the risks identified and the other audit evidence available.

The example is illustrative only and does not represent all possible circumstances. The example demonstrates how the auditor:

- starts by understanding the investment structure, valuation process, available information and management's monitoring activities;
- identifies risks arising from estimation uncertainty, reporting-date differences and limitations in available information;
- develops a response based on the information available; and
- evaluates the persuasiveness of the resulting body of audit evidence as a whole.

Learning

In this example, no single source of information provides sufficient appropriate audit evidence on its own. The auditor therefore evaluates how the different sources of information and the results of audit procedures corroborate or contradict one another and contribute to the cumulative audit evidence.

Professional judgement is required when evaluating whether the body of evidence as a whole is sufficient and appropriate to support the auditor's conclusion.

Example 1: Reporting dates do not align and underlying investments are private assets

Fact pattern

An investor fund invests in an externally managed New Zealand wholesale fund.

The wholesale fund is managed by an unrelated investment manager and audited by a different auditor.

The wholesale fund invests primarily in private equity and private debt investments through limited partnership structures. The investment manager is responsible for determining the fair value of those underlying investments using valuation methodologies that involve significant judgement and unobservable inputs.

The investment in the wholesale fund represents approximately 12% of the investor fund's net assets and is material to the financial statements.

The investor fund's reporting date is 31 March 20X7. The most recent audited financial statements of the wholesale fund are for the year ended 30 September 20X6.

The auditor's understanding of the investment is informed by information obtained from management, including:

- the product disclosure statement;
- statement of investment policy and objectives;
- other material information;
- investor reporting received from the wholesale fund manager;
- audited financial statements of the wholesale fund; and
- ongoing monitoring activities.

Information available

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Some information is obtained directly from the wholesale fund and its service providers, while other information is obtained through management's monitoring activities.

The auditor has access to information from several sources including:

- audited financial statements of the wholesale fund;
- confirmation of the investor fund's holding and redemption value;
- investor reports issued by the wholesale fund;
- information describing the investment strategy, governance arrangements and risk management processes;
- information describing valuation methodologies and policies;
- information about significant valuation movements since the wholesale fund's reporting date;
- information obtained through management's ongoing monitoring of the investment;
- information regarding liquidity management, redemption arrangements and any restrictions on investor withdrawals.

The auditor does not have direct access to all underlying valuation models, assumptions and supporting documentation relating to the private assets held by the wholesale fund and therefore needs to consider what additional information may reasonably be available through management, the wholesale fund or other parties.

Key risks identified

The auditor identifies the following factors that may increase the risk of material misstatement:

- there is a six-month period between the wholesale fund reporting date and the investor fund reporting date during which valuation inputs, assumptions and market conditions may have changed;
- the underlying investments involve significant estimation uncertainty and judgement;
- the auditor has limited direct access to information about underlying investments;
- valuations may have changed significantly between the wholesale fund's reporting date and the investor fund's reporting date;
- the investor fund's investment is material to the financial statements.

The auditor therefore assesses the risk as higher than it would be for a fund investing in liquid assets with aligned reporting dates.

Building the body of audit evidence

In response to the risks identified, the auditor considers how different sources of information contribute to the overall body of audit evidence.

Audited financial statements

The audited financial statements provide information about:

- the accounting policies applied;
- valuation methodologies used;
- fair value disclosures;
- significant assumptions and judgements
- the auditor's report.

This information assists the auditor in understanding how the wholesale fund measures and reports its investments and may corroborate the auditor's understanding of the investment obtained from other sources.

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Confirmation of the investment

The confirmation provides evidence regarding:

- the investor fund's holding in the wholesale fund;
- the number of units held;
- the reported redemption value.

The confirmation does not provide sufficient appropriate audit evidence regarding the value of the investment on its own. The confirmed value originates from the wholesale fund or its service providers and therefore requires corroboration from other sources of information. The auditor considers what additional evidence is available to support the reported value.

Controls reports

The auditor obtains controls reports covering relevant service organisations involved in the administration, custody or valuation process.

The controls reports provide information about:

- controls over valuation and unit-pricing processes;
- controls over the completeness and accuracy of information used in those processes;
- controls over investment administration and record keeping;
- exceptions identified by the service auditor; and
- the period covered by the report.

The auditor concludes that the controls are relevant to the risks identified. However, the period covered by the controls reports does not fully align with the investor fund's financial year.

The controls reports provide information about the reliability of valuation, unit-pricing and investment administration processes during the period covered by the reports. The auditor considers what additional information may be necessary regarding the period not covered by the reports and how the controls reports contribute to the overall body of audit evidence.

Management's monitoring activities

Management's monitoring activities may include:

- due diligence performed before investing;
- ongoing monitoring of the wholesale fund;
- review of investor reports received from the investment manager;
- discussions with the investment manager regarding valuation matters;
- consideration of significant events affecting underlying investments;
- review of significant valuation movements and investment performance
- review of governance and risk management reporting received from the wholesale fund.

This information assists the auditor in evaluating the reliability of information received from the wholesale fund and understanding how management obtains comfort over the reported value.

Information about valuation governance and methodology

The auditor obtains information describing:

- valuation methodologies applied to private assets;
- significant assumptions and inputs used in valuations;
- the use of external valuation specialists, where applicable;

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- valuation committee oversight;
- review and approval processes applied to significant valuations;
- the review of valuations obtained from external managers or other third parties;
- how liquidity events, impairments and other significant events are identified and reflected in valuations;
- how related party investments and conflicts of interest are governed, where relevant.

This information assists the auditor in understanding how valuations are determined and governed within the wholesale fund. It may also provide information relevant to assessing the reliability of valuations received from the wholesale fund.

Information obtained after the wholesale fund reporting date

The auditor obtains information about:

- significant valuation movements;
- capital calls and distributions;
- liquidity events affecting material investments;
- impairment events;
- significant economic or market developments affecting the underlying investments.

Examples of liquidity events may include:

- initial public offerings;
- trade sales;
- mergers or acquisitions;
- secondary market transactions.

This information assists the auditor in evaluating whether conditions may have changed since the date of the audited financial statements and whether the information available at the wholesale fund reporting date remains relevant at the investor fund reporting date.

Information about significant underlying investments

Limited information is available regarding certain material underlying investments.

The auditor considers whether additional information may be available, such as:

- valuation reports;
- information about recent transactions;
- information regarding significant valuation changes;
- information about commitments and funding requirements;
- information obtained through management's monitoring activities.

The auditor considers whether the information available is sufficient in the circumstances or whether additional information may be available that could contribute to the body of audit evidence.

Evaluating the body of audit evidence

The auditor evaluates the body of evidence as a whole.

The auditor considers:

- whether the evidence obtained responds to the risks identified;
- whether different sources of information corroborate one another;

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- whether contradictory information has been identified and appropriately addressed;
- whether the information available remains relevant at the investor fund's reporting date;
- whether any limitations in available information prevent the auditor from obtaining sufficient appropriate audit evidence.

The auditor notes that no single source of information provides sufficient appropriate audit evidence. The auditor therefore considers how the audited financial statements, confirmation evidence, controls reports, management's monitoring activities, information obtained after the wholesale fund reporting date, valuation governance information and information regarding significant underlying investments corroborate one another and respond to the assessed risks.

After evaluating the relevance and reliability of the information obtained, how that information contributes to the body of audit evidence, and the results of the audit procedures performed, the auditor concludes that the cumulative audit evidence is sufficient and appropriate to support the valuation of the investment. This conclusion depends on the specific facts and circumstances and does not imply that the same combination of evidence is always needed nor will be sufficient in other circumstances.

STAFF WORKING DRAFT

Template: Assessment for Consistency Accountability Statement

Reference number	[Standard number]
Subject	Regulatory Standards Act assessment to support Consistency Accountability Statement
Related to	ISA (NZ) for LCE
Date of technical board discussion of this assessment	[Date of Technical Board discussion on this memo]
Approval Date	[Date you finalised this document]

The Technical Board will be asked to **AGREE** with the overall memorandum to support the Chief Executive's statements within the CAS. The Technical Board will be asked to **APPROVE** Appendix A to support their considerations of the costs and benefits of the standard and that benefits of the standard outweigh the costs when approving the standard.

Guidance and instructions

- This template includes guidance and instructions in green that, among other things, summarises the statutory guidance available to help to complete a Regulatory Standards Act (**RS Act**) Assessment that underpins a Consistency Accountability Statement.
- **The content in green text should be retained in the RS Act Assessment that is submitted to the board being asked to approve a new or amendment standard or authoritative notice.**
- **BUT None of the content in green text should be included in the final version of the RS Act Assessment.**

Purpose

1. Section 3(1) of the Regulatory Standards Act 2025 (RS Act), insofar as it relates to secondary legislation states that the purposes of the RS Act are to:
 - (a) promote the accountability of the Executive to Parliament for the development of high-quality legislation
 - (b) support Parliament in overseeing and controlling the use of delegated powers to make legislation.
2. RS Act also:
 - (a) lists principles of responsible regulation (**the principles**)
 - (b) requires agencies responsible for making secondary legislation to publish:
 - i. a Consistency Accountability Statement (**CAS**) confirming that the agency has reviewed the legislation and the process for developing it for consistency with the principles and summarising any identified inconsistency
 - ii. a statement that briefly explains the reasons for any inconsistency.

3. This RS Act assessment documents the analysis and processes that underpin the CAS for [Number and name of the standard/authoritative notice].

Summary of this RS Act Assessment

4. The Chief Executive, the responsible Director and the Director's staff have assessed [standard number] and the process for developing it for consistency with the principles.
5. We have not identified any inconsistencies with the principles.

The scope of XRB's statutory powers

6. The XRB makes the following secondary legislation under sections 12 and 20 of the Financial Reporting Act 2013 (**FR Act**):
 - (a) Financial reporting standards and authoritative notices that govern the content of general purpose financial statements.
 - (b) Climate standards and authoritative notices that govern the content of climate statements prepared under Part 7A of the Financial Markets Conduct Act 2013 (**the FMC Act**).
 - (c) Auditing and assurance standards, related service standards, and professional and ethical standards that contribute to the system for regulating assurance practitioners.

The context for this RS Act Assessment

7. Many enactments require audit and assurance engagements to be carried out in accordance with standards issued by the XRB under section 12(b) of the FR Act. Some professional accounting bodies require their members to comply with XRB standards when conducting an assurance or related services engagement.
8. The purpose of assurance engagements is to enhance the reliability and credibility of reported information by providing an independent conclusion about whether the subject matter is free from material misstatement. Audit and review engagements enhance the reliability and credibility of financial statements by providing an independent conclusion about whether they are free from material misstatement, whether due to fraud or error. Other engagements have other purposes such as independently evaluating whether an entity has adhered to specific laws, industry-specific regulation or contractual obligations.
9. Auditing and assurance standards provide a framework for assurance practitioners to conduct audits and other assurance engagements systematically, consistently and to a high quality. They are divided into four categories: auditing standards, review engagement standards, sustainability assurance standards and other assurance engagement standards. There is one related services engagement standard.
10. Professional and ethical standards apply to all assurance and related service engagements. They comprise a code of ethics and quality management standards. The code of ethics is structured around principles of integrity, objectivity, independence, professional competence and confidentiality. The quality management standards are designed to promote consistent high-quality engagements by requiring firms to proactively identify, assess, and respond to risks that could affect engagement quality.
11. [Standard number] is not stand-alone regulation. The purpose of [standard number] is to address the matters set out in that standard. This assessment relates to the specific impact of [standard number].

Applying the principles of responsible regulation

General comment on applying the statutory guidance

Some checklist items in the statutory guidance would require detailed analysis and documentation when evaluating consistency with the applicable principle. This situation arises because the statutory guidance appears to be premised on the assumption that the proposed legislation would establish or disestablish a regulatory system, increase the scope of a regulatory system, or increase or reduce the classes of number of entities or persons subject to existing regulation. This is not the case with the XRB's standards.

The statutory guidance states that:

- the statutory guidance is not intended to provide an exhaustive list of all considerations that might be relevant when completing a CAS, or to define precisely what inconsistency with the principles might look like in all situations
- the statutory guidance sets out best practice and expectations in relation to what agencies should consider when undertaking their own assessments for the purposes of preparing a CAS, to help promote a standardised approach across agencies
- the individual circumstances and context of a piece of legislation are relevant to an assessment, and the guidance should be read in light of those circumstances, as well as the purpose of the Act.

The guidance in this RS Act Assessment template aims to faithfully apply each principle and sub-principle in a proportionate manner in line with the XRB's narrow-scope powers to make secondary legislation.

12. This RS Act Assessment documents our processes and analysis in accordance with the principles. We have evaluated [Standard number] against all principles.
13. We have, in preparing this RS Act Assessment, considered the statutory guidance jointly issued in May 2026 by the Attorney-General and Minister for Regulation under section 26 of the RS Act.

S9(a)(i): The legislation should be clear and accessible

The principle

14. Section 9(a)(i) states that "the law should be clear and accessible". We have not identified any inconsistencies in [Standard number] with this principle.

Statutory guidance on accessibility

The statutory guidance states that legislation should be easy to find by those it applies to. It also states that agency-published legislation should be published in full on the agency's website.

Statutory guidance on clarity

The statutory guidance states that:

- the degree of clarity that is expected depends on the context, including who it applies to
- the legislation needs to be clear to its intended audience

- legislation that is mainly used by specialists and technical experts may be clear despite using technical terms
- in some cases, clarity of law can be enhanced by using technical content
- legislation that is cross-referenced (e.g. definitions in other legislation) and material incorporated by reference should be assessed in the same way as the legislation itself.

Accessibility

15. [Standard number] [and the International Board's Basis for Conclusions] was published on the Assurance standards page [add hyperlink] on the XRB's website on the date that it was gazetted.
16. All extant XRB standards are searchable using the [XRB Standards Navigator](#).

Clarity

17. [Standard number] applies to assurance practitioners of less complex entities. It also needs to be understood by regulators of those auditors to assess audit quality.
18. [Standard number] is a New Zealand equivalent of [number and name of the international standard] which was issued by International Auditing and Assurance Standards Board (IAASB). There are significant differences between the drafting approach and style used by IAASB and by the Parliamentary Counsel Office.
19. Except where changes have been considered appropriate having regard to New Zealand circumstances and law, we have generally used the same structure and wording in [NZ Standard number] as in [International standard number] because it preserves global assurance consistency and comparability, avoids the risk of contradictions with other parts of the standard and reduces the risk of disputes. There are risks of other unintended consequences if a unique New Zealand version of the international standard were to be issued using a different drafting approach and style.
20. [Standard number] incorporates PES 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards) New Zealand by reference. We consider that the publication is clear to the intended audience as follows the IAASB drafting approach, style and structure.

S9(a)(ii): The legislation should not adversely affect rights and liberties, or impose obligations, retrospectively

21. We have not identified any inconsistencies in [Standard number] with this principle. Consistent with the prohibition on retrospectivity in section 28(2)(b) of the FR Act, [Standard number] does not have retrospective effect.

S9(a)(iii): Every person is equal before the law

22. We have not identified any inconsistencies in [Standard number] with this principle. The XRB does not have the statutory power to unequally administer the law.

S9(a)(iv): There should be an independent, impartial judiciary

23. We have not identified any inconsistencies in [Standard number] with this principle. The XRB does not have the statutory power to compromise the independence or impartiality of the judiciary.

S9(a)(v): Issues of legal right and liability should be resolved by the application of the law, rather than the exercise of administrative discretion

24. We have not identified any inconsistencies in [Standard number] with this principle. The XRB issues standards as secondary legislation. These standards do not provide for the resolution of legal rights and liability in a manner that is contrary to the rule of law.

S9(b)): Legislation should not unduly diminish a person's liberty, personal security, freedom of choice or action, or rights to own, use and dispose of property without the consent of the owner except as is necessary to provide for, or protect, any such liberty, freedom, or right of another person

Statutory guidance on liberties

The statutory guidance in relation to the liberties principle focuses on natural persons. It also states that:

- While most legislation involves setting some form of limit on rights or liberties, the intent is not to capture every situation where a liberty may be diminished to any degree.
- This principle is only breached if the legislation both unduly diminishes rights or liberties and does so more than is needed to provide for or protect others' rights and liberties.

25. We have not identified any inconsistencies in [Standard number] with this principle. [Standard number] does not unduly diminish any of the rights or liberties referred to in this principle.

S9(c): Taking or severely impairing property without the owner's consent

26. We have not identified any inconsistencies in [Standard number] with this principle. The XRB does not have the statutory power to take or severely impair private property.

S9(d)-(f): Taxes, fees and levies

27. We have not identified any inconsistencies in [Standard number] with this principle. The XRB does not have the statutory power to impose or authorise the imposition of a tax, fee or levy.

S9(g): Legislation should preserve the courts' constitutional role of ascertaining the meaning of legislation

28. We have not identified any inconsistencies in [Standard number] with this principle. The XRB does not have the statutory power to make an authoritative determination of the meaning of a standard or interfere with the judicial process in particular cases before the courts.

S9(h): Legislation should make rights and liberties, or obligations, dependent on administrative power only if the power is sufficiently defined and subject to appropriate review

29. We have not identified any inconsistencies in [Standard number] with this principle. The XRB does not have the statutory power to make rights, liberties and obligations dependent on administrative power or limit judicial review.

S9(i): Consultation

The principle

30. Section 9(i) refers to “the importance of consulting, to the extent that is reasonably practicable, the persons or representatives of the persons that the responsible agency considers will be directly and materially affected by the legislation”. We have not identified any inconsistencies in [Standard number] with this principle.

Statutory guidance on consultation

The statutory guidance states that the expectation is that the focus of the assessment should be on consultation with persons outside Government.

Much of the statutory guidance on consultation relates to the ‘reasonably practicable’ exception in s9(i). It states that this is a genuine urgency exception. Genuine urgency only arises when the legislation is needed for reasons beyond the responsible agency’s control, such as responding to a national emergency. It does not apply merely because the agency decided to act with urgency. For example, an agency that fails to consult with all directly and materially affected persons or their representatives because it legislated quickly in response to external pressures will have acted inconsistently with the principle.

Our consultation on [standard number]

31. [Standard number] will directly and materially affect:
- (a) Auditors of less complex entities¹
 - (b) Users of audit opinions including but not limited to investors, shareholders, lenders, regulators and oversight bodies, those charged with governance, grant providers, donors, taxpayers.
32. We took the following steps to consult:
- (a) Issued a consultation document on 11 August 2026, which outlined the proposed changes including a copy of the exposure draft and explanatory memorandum issued by the IAASB. We notified New Zealand stakeholders via LinkedIn posts and in the XRB’s audit and assurance alerts.
 - (b) Conducted outreach with stakeholders including two virtual meetings that described key proposals and sought feedback from participants, provided a high level overview of proposals on a webcast available on the XRB website.
 - (c) The NZAuASB submitted a comment letter on these proposals, which was informed through feedback gathered from New Zealand stakeholders.

¹ Section 12(b) of the FR Act describes the assurance practitioners that must comply with auditing, assurance, related service, professional and ethical standards issued by the XRB.

S9(j): Evaluation

33. Section 9(j) refers to the importance of carefully evaluating:

- i. the issue concerned
- ii. the effectiveness of any relevant existing legislation and common law
- iii. whether the public interest requires that the issue be addressed
- iv. any options (including non-legislative options) that are reasonably available for addressing the issue
- v. who is likely to benefit, and who is likely to suffer a detriment, from the legislation.

We have not identified any inconsistencies in [Standard number] with this principle.

Section 9(j)(i) – The importance of carefully evaluating the issue concerned

The statutory guidance on evaluating the issue

The statutory guidance states that the agency should develop a clear problem definition that identifies and (to the extent feasible) quantifies the problem that the proposed legislation seeks to address. This involves:

- identifying the problem and its root causes, including consideration of whether any market failure is involved
- assessing the nature, scale, and urgency of the issue, to the extent possible, based on available evidence
- assessing why the issue is significant and what will happen if it is not addressed, including any opportunity cost.

34. [Standard number] is the New Zealand equivalent of [Number and name of international standard].

35. The narrow scope amendments make proportionate amendments to the ISA (NZ) for LCE to ensure it maintains the standard for recent changes to the auditing standards on fraud, going concern, publicly traded entities and using the work of an expert. The amendments ensure the ISA (NZ) for LCE remains:

- (a) Relevant in the context of the typical nature and circumstances of an audit of an LCE; and
- (b) Aligned with the core requirements and concepts of the full auditing standards in a proportionate way.

36. Amending the ISA (NZ) for LCE preserves global assurance consistency and comparability, avoids the risk of contradictions with other parts of the standard and reduces the risk of disputes. There are risks of other unintended consequences if a unique New Zealand version of the international standard were to be issued using a different drafting approach and style.

Section 9(j)(ii) – The importance of carefully evaluating the effectiveness of existing law

The statutory guidance on the effectiveness of existing law

The statutory guidance states that the agency should assess whether existing legislation and common law already address the problem. This involves:

- identifying what current legislation or common law is relevant to the issue and assessing whether and how it is already working to address the issue or issues
- identifying any gaps, overlaps, or inefficiencies.

37. Current legislation and common law do not effectively address the issue for the reasons stated in paragraph 35.

Section 9(j)(iii) – The importance of carefully evaluating whether the public interest requires that the issue be addressed

The statutory guidance on the public interest

The statutory guidance states that the agency should consider whether (based on available evidence) the scale, urgency, and impact of the issue indicates that it needs to be addressed in the public interest.

38. It is in the public interest to issue [NZ standard number] for the reasons stated above explaining why the XRB adopts international standards as a whole and the adverse consequences of departing from them in individual standards.
39. It is also in the public interest for [NZ standard number] to apply from the same date as [International standard number]. The New Zealand standard and the international standard would impose different requirements for a time if the application dates were to be different.

Section 9(j)(iv) – The importance of carefully evaluating any options that are reasonably available for addressing the issue

The statutory guidance on options

The statutory guidance states that the agency should:

- consider non-legislative options – noting that the policy objective might be achieved more effectively through education programmes, reliance on the common law or existing legislation, or reliance on existing civil remedies
- identifying all feasible options (or groups of options) that would address the identified problem or achieve the identified objective, including any deregulatory options
- assessing the effectiveness, cost, and feasibility of these options relative to each other and to the status quo.

40. The XRB publishes non-legislative guidance, but usually to provide guidance about a standard. We publish guidance because it:
- (a) provides practical support for applying standards
 - (b) helps reporting entities, assurance practitioners, users and regulators understand and implement complex principles
 - (c) promotes reporting or assurance consistency among entities and practitioners that choose to use it.
41. There are no reasonably available non-legislative options. It is essential for New Zealand assurance practitioners to carry out engagements in accordance with all applicable international standards because they provide a universal framework for quality, consistency and reliability across markets.

Section 9(j)(v) – Distributional impacts

The statutory guidance on distributional impacts

The statutory guidance states that agencies should identify:

- those that are affected by the legislation and how those effects differ across different groups
- any equity or fairness issues that have arisen because of the legislation
- any unintended consequences that have resulted for any groups.

42. The purpose of [Standard number] is to improve the overall quality of standards used for conducting audits of historical information.
43. Objective assessment by an independent assurance practitioner benefits primary users because they obtain increased certainty that the disclosed information can be relied upon for decision making and accountability purposes. For-profit reporting entities benefit by obtaining increased access to capital. The costs of assurance are incurred by assurance practitioners. Those costs are passed on to reporting entities through practitioner fees and costs.
44. We have not identified any fairness or equity issues.

S9(k): Implementation**The principle**

45. The implementation principle identifies the importance of the responsible agency identifying and developing effective arrangements for implementing the legislation.

The statutory guidance on implementation

The statutory guidance states that agencies should:

- develop an overall strategy for implementing the chosen option, including the steps and actions required
- identify the key risks associated with the implementation of the legislation, and develop possible mitigation strategies to address these risks
- identify the roles and responsibilities of all parties involved in the implementation process, including the responsible agency and any other stakeholders
- identify the resources required for implementation, including financial, human, and technical resources.

46. Our approach to implementation is scaled project-by-project because they range from major and complex to routine and technical. The XRB has complied with the implementation principle for [standard number] by:

- (a) [Describe the implementation approach taken to date].
- (b) [Describe any implementation that will be undertaken after the standard has been issued and the target dates for achieving milestones, or state that no further implementation steps are proposed and explain why not].

S9(l): Benefits exceed the costs**The principle**

47. The principle states that legislation should be expected to produce benefits that exceed the costs of the legislation to the public or persons. Our analysis of benefits and costs for [Standard number] appears in Appendix A.
48. We are satisfied that the benefits exceed the costs for the reasons stated in Section E of Appendix A.

The statutory guidance on benefits and costs

The statutory guidance states that agencies should:

- identify all expected major costs and benefits
- quantify and monetise costs and benefits in dollar terms to the extent feasible
- identify and disclose any expected effects that cannot be monetised
- identify who is expected to benefit and who is expected to bear the costs
- disclose any risks or uncertainties, or any key assumptions affecting the analysis.

S9(m) – Effectiveness, efficiency and proportionality**The principle**

49. The principle states that the legislation should be the most effective, efficient and proportionate response to the issue concerned that is available.
50. We have not identified any inconsistencies in [Standard number] with this principle.

The statutory guidance on effectiveness, efficiency and proportionality

This principle focuses on ensuring that the legislation is the optimal response to the policy problem or objective it aims to address or achieve, within the options reasonably available. Assessments of consistency against this principle can draw on assessments made against the other principles, particularly the other good law-making principles. More specifically:

- **Effectiveness:** There should not be other options that can better achieve the defined objectives or deliver more net benefits.
 - **Efficiency:** There should not be other options that achieve the defined objectives with the same benefit at less cost.
- Proportionality:** There should not be other responses that would align better with the level of severity, urgency and/or scope of the issue in question, and/or would be more flexible or less costly.

51. Issuing [standard number] is the most effective, efficient and proportionate response for the reasons stated above.

Attachment

Appendix A – Benefit and Cost Assessment

Appendix A – Benefit and Cost Assessment

This Appendix records the XRB's assessment of whether the expected benefits of issuing or adopting a standard are likely to exceed the expected costs, consistent with the good law-making principle in section 9(l) of the Regulatory Standards Act 2025.

Note: The Technical Board will also be asked to **APPROVE** Appendix A to support their considerations of the costs and benefits of the standard and that benefits of the standard outweigh the costs when approving the standard.

Links

[Section A – XRB approach to evaluating benefits and costs](#)

[Section B – International benefit-cost considerations](#)

[Section C – Domestic benefit-cost considerations](#)

[Section D – Benefit-cost questions and feedback from respondents](#)

[Section E – Overall conclusion](#)

Standard Name	[Standard Name] ('the standard')
Standard Reference	[XRB 20XX/XX]
Principal Standard(s)/Amendment	Amending Standard
Significant impact/narrow-scope	Narrow-Scope
Impacted entities	Assurance practitioners, regulators and oversight bodies.

Section A – XRB approach to evaluating benefits and costs

The purpose of this document is to record the XRB's assessment of the major expected benefits and costs of issuing or adopting the **amending** standard. The assessment supports the good law-making principle that legislation should be expected to produce benefits that exceed the costs of the legislation to the public or to persons.

This assessment compares the expected future state if the standard is issued or adopted with the counterfactual position if the standard is not issued. It identifies the main affected parties, the expected benefits and costs, distributional impacts, uncertainty and the extent to which benefits and costs can be quantified or monetised.

The purpose of the XRB's standards is to promote trust and confidence, transparency and accountability through high-quality external reporting and assurance. We do this by establishing and maintaining robust frameworks and standards that are internationally credible and locally relevant. The development of New Zealand standards in line with the XRB's due process requirements, build on the due process, research, consultation and effects analysis undertaken by international standard-setting bodies, assessing whether the resulting requirements are appropriate for New Zealand. The XRB therefore considers both the factual position and the counterfactual position, including what would occur if the standard were not issued or adopted.

The analysis carried out by the relevant international standard setting board provides the starting point. Our domestic analysis then considers whether those benefits and costs are relevant, proportionate and sufficiently evidenced in the New Zealand context.

This assessment has been prepared with reference to the [Ministry for Regulation's](#) cost-benefit analysis resource. Consistent with that guidance, the XRB applies a proportionate approach and addresses the following matters:

- Identify all expected major benefits and costs
- Identify who is expected to benefit and who is expected to bear the costs
- Quantify and monetise benefits and costs in dollar terms to the extent feasible
- Identify and disclose any expected effects that cannot be monetised
- Disclose any risks or uncertainties, or any key assumptions affecting the analysis.
- Compare the factual and counterfactual positions, including the consequences of no regulatory change.

Section B – International benefit-cost considerations

The International Auditing and Assurance Standards Board (IAASB) issues international auditing and assurance standards. In developing its standards, the IAASB considers the qualitative standard-setting characteristics set out in the Public Interest Framework.²

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

For international auditing and assurance standards, the counterfactual is that New Zealand would not adopt the relevant IAASB standard or amendment. In that case, audit requirements in New Zealand become less aligned with international practice. This could result in reduced global consistency, create differences in audit approaches across jurisdictions, and limit the benefits arising from internationally developed enhancements designed to support high-quality audit engagements and maintain confidence in financial reporting. Therefore, the XRB needs to adopt all standards and amendments issued by the IAASB, subject to New Zealand's due process.

The IAASB's Public Interest Framework identifies the qualitative characteristics of standards that are responsive to the public interest. The IAASB explains in the Basis for Conclusions how those characteristics have been considered and reflected in the final standard.

The major expected benefits and costs are as follows.

Qualitative Assessment

Major expected benefits
• Global audit quality and comparability (Users and Assurance Practitioners): Alignment with international standards enhances the credibility of reporting and supports regulatory confidence. • Enhanced confidence in assurance outcomes (Users): Consistent, principle-based requirements reduce variability in audit approaches and strengthens trust in assurance conclusions. The process enhances confidence that standards are developed in the public interest. • Efficiency from leveraging global due process (Reporting Entities and Assurance Practitioners): IAASB standards are developed through extensive

² See the Public Interest Framework published by the Monitoring Group in July 2020 (as part of their report "*Strengthening the International Audit and Ethics Standard-Setting System*"). The Public Interest Framework sets out a framework for the development of high-quality international standards by the IAASB that are responsive to the public interest. Among other matters, the Public Interest Framework explains for whom standards are developed, what interests need to be served and what characteristics standards should exhibit.

consultation, research and testing. They are designed to achieve the qualitative characteristics of the public interest framework.

- **Proportionate and scalable (Assurance practitioners):** IAASB's LCE standard is designed especially for LCEs. The proposals align with the current ISAs (NZ) to provide the same level of assurance as an audit performed under the ISAs but tailored for the LCE environment.

Major expected costs

- **Implementation and methodology updates (Assurance Practitioners):** The revised IAASB standards often require changes to audit and assurance methodologies, tools, templates, and quality management systems. Assurance practitioners incur costs for training, updating software, and redesigning processes.
- **Proportionality challenges for smaller firms (Assurance Practitioners):** Notwithstanding that the IAASB's standards are designed to be proportionate and scalable, they may still be complex for small and medium assurance firms. Additional guidance may be required to support consistent application of the standards.

Quantitative Assessment

The IAASB has not provided a monetised assessment of the benefits and costs for this standard. The XRB has therefore considered the major expected qualitative benefits and costs, the parties affected, the counterfactual position and the practical constraints on quantification.

A quantified or monetised assessment is not feasible for this standard because impacts will vary by entity. This assessment therefore relies on this qualitative analysis that identifies the main affected parties, expected impacts, timing, key assumptions and uncertainties.

This is in line with the Ministry for Regulation guidelines.

Section C – Domestic benefit-cost considerations

In addition to the international considerations around benefits and costs made above, benefit and cost considerations in the New Zealand context have also been considered. The major expected benefits and costs within the New Zealand context for the standard are as follows.

Qualitative Assessment

Major expected benefits

- **Global audit quality and comparability (Users and Assurance Practitioners):** Alignment with international standards enhances the credibility of financial reporting and supports regulatory confidence.
- **Enhanced confidence in assurance outcomes (Users):** Consistent, principle-based requirements reduce variability in audit approaches and strengthens trust in assurance conclusions. The proposals strengthen requirements in key public interest areas such as fraud and going concern. This supports user protection, market integrity and informed decision-making.
- **Efficiency from leveraging global due process (Reporting Entities and Assurance Practitioners):** IAASB standards are developed through extensive consultation, research and testing. Jurisdictions benefit from global expertise on LCE audit issues without needing to develop local standards.
- **Proportionate and scalable (Assurance practitioners):** IAASB's LCE standard is designed especially for LCEs. The proposals align with the current ISAs (NZ) to provide the same level of assurance as an audit performed under the ISAs but tailored for the LCE environment.

Major expected costs

- **Implementation and methodology updates (Assurance Practitioners):** The revised IAASB standards often require changes to audit and assurance methodologies, tools, templates, and quality management systems. Assurance

practitioners incur costs for training, updating software, and redesigning processes. Strengthened requirements in fraud and going concern may require increased work effort.

- **Proportionality challenges for smaller firms (Assurance Practitioners):** Notwithstanding that the IAASB's standards are designed to be proportionate and scalable, they may still be complex for small and medium assurance firms. Additional guidance may be required to support consistent application of the standards.

Quantitative Assessment

Consistent with the Ministry for Regulation guidelines, we do not consider a quantitative assessment of benefits and costs (including compliance cost estimates, one-off and ongoing cost estimates and sensitivity analysis) to be feasible for this standard. We have relied upon the comprehensive qualitative assessment performed above to support our conclusion.

Section D – Benefit-cost questions and feedback from respondents

The following questions were raised as part of our consultation with New Zealand stakeholders on the benefits and costs of the standard. We have evaluated and considered the feedback on these questions as outlined below:

#	Question	Stakeholder Comments	XRB response
1	Do you have any additional comments on the expected benefits and costs of the proposed standard and their impact on New Zealand?	No	Not applicable

We consider the feedback received on the proposed standard, and the actions taken to respond to comments raised by stakeholders. We consider the actions taken in response to the feedback to be appropriate and proportionate to ensure that the benefits of the standard are realised and the costs imposed are justified, noting the costs and benefits are borne by different parties.

Section E – Overall conclusion

We consider the benefits of the standard to outweigh the costs, and our considerations and conclusions are consistent with the requirements of the Regulatory Standards Act 2025.

Consistent with the Ministry for Regulation guidelines, the XRB applies a proportionate approach to evaluating the benefits and costs of the standard. Major expected benefits are ongoing and relate to improved decision-useful information being reported to New Zealand users and stakeholders while major expected costs are implementation and on-going costs to comply with requirements, borne primarily by reporting entities.

These expected benefits and costs are in line with expectations, given the role of financial reporting standards to support minimum requirements for general-purpose reporting by entities to users and stakeholders for decision-making purposes.

This analysis and conclusion support the statement in the CAS that there are no inconsistencies in developing this standard with the principles of good law making.

Supplementary agenda item 9.4

To: NZAuASB

Meeting date: 14 October 2026

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

Date: 29 September 2026

☐ **Action Required**

☒ **For Information Purposes Only**

Submissions were received in a variety of formats:

- Microsoft Form
- Email or email attachments

Use the Bookmarks menu in your PDF programme to move between submissions

Individual/ organisation	Category
Nicola Hankinson, Baker Tilly Staples Rodway	Auditor
CAANZ	Regulator/ Membership organisation
Audit Assistant	Audit software provider

Preliminary questions

Please provide your name *

Nicola Hankinson FCA

What is your role? *

Other Audit specialist (i.e., technical director, audit manager, audit senior, etc)



Please provide the name of the organisation that you are employed by, or affiliated with *

Baker Tilly Staples Rodway New Zealand

Please provide your email address *

nicola.hankinson@bakertillysr.nz

We propose New Zealand additions for when an entity uses a service organisation

Do you agree with our understanding and our view on the necessary amendments?

☒ Yes

☐ No

If you answered no to the above, please comment why

No answer provided.

Do you agree the proposals are appropriately scoped and proportionate?

☒ Yes

☐ No

If you answered no to the above, please comment why not and what changes do you suggest?

No answer provided.

Do you agree that the requirements and Essential Explanatory Material are clear and workable?

☒ Yes

☐ No

If you answered no to the above, please comment what changes would help improve clarity or application?

No answer provided.

Do you agree that the expected benefits of the proposed amendments, listed on page 7 of the consultation document, outweigh the implementation costs and other practical challenges?

☒ Yes

☐ No

If you answered no to the above, please comment why

No answer provided.

Are there any other benefits or costs that we should consider?

Thank you for your quick and sensible action on this

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

☒ Yes

☐ No

If you answered no to the above, please comment why

No answer provided.

We propose to adopt international proposals to maintain the ISA for LCE

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 10 of our consultation document?

☒ Yes

☐ No

If you answered no to the above, please comment why

No answer provided.

Are there any other benefits or costs that we should consider?

No answer provided.

Do you agree we should replace references from listed entity to publicly traded entities?

☒ Yes

☐ No

If you answered no to the above, please comment why

No answer provided.

Are there any compelling reason changes the XRB should make in New Zealand?

No answer provided.

IAASB's proposed revisions to the ISA for LCE

Questions related to the IAASB's Explanatory Memorandum for ED-ISA for LCE

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**?

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

- ☒ Agree (with no further comments)
- ☐ Agree (with comments below)
- ☐ Disagree (with comments below)
- ☐ Neither agree nor disagree
- ☐ No response

Please add any comments in relation to your answer to the previous question. You are also invited to include as part of your response insights on the **implications or effects** of implementing the proposed revisions in ED-ISA for LCE.

No answer provided.

Provide your views on the proposed revisions to **Part A, Authority of the ISA for LCE**.

(See Section I-B in the Explanatory Memorandum)

- ☒ Support the proposed revisions (with no further comments)
- ☐ Support the proposed revisions (with comments below)
- ☐ Do not support the proposed revisions (with comments below)
- ☐ Neither support/ not support (with comments below)
- ☐ No response

Please add any comments in relation to your answer to the previous question.

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.

No answer provided.

Provide your views on the proposed revisions to **Part 1, Fundamental Concepts, General Principles and Overarching Requirements**.
(See Section I-C in the Explanatory Memorandum)

- ☒ Support the proposed revisions (with no further comments)
- ☐ Support the proposed revisions (with comments below)
- ☐ Do not support the proposed revisions (with comments below)
- ☐ Neither support/ not support (with comments below)
- ☐ No response

Please add any comments in relation to your answer to the previous question.

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.

No answer provided.

Provide your views on the proposed revisions to **Part 2, Audit Evidence and Documentation** and **Part 3, Engagement Quality Management**.
(See Section I-D in the Explanatory Memorandum)

- ☒ Support the proposed revisions (with no further comments)
- ☐ Support the proposed revisions (with comments below)
- ☐ Do not support the proposed revisions (with comments below)
- ☐ Neither support/ not support (with comments below)
- ☐ No response

Please add any comments in relation to your answer to the previous question.

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.

No answer provided.

Provide your views on the proposed revisions to **Part 5, Planning**.
(See Section I-E in the Explanatory Memorandum)

- ☒ Support the proposed revisions (with no further comments)
- ☐ Support the proposed revisions (with comments below)
- ☐ Do not support the proposed revisions (with comments below)
- ☐ Neither support/ not support (with comments below)
- ☐ No response

Please add any comments in relation to your answer to the previous question.

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.

No answer provided.

Provide your views on the proposed revisions to **Part 6, Risk Identification and Assessment. Responses related to Presumption of ROMMs Due to Fraud in Revenue Recognition (Part 6.4)**
(See Section I-F in the Explanatory Memorandum)

- ☒ Support the proposed revisions (with no further comments)
- ☐ Support the proposed revisions (with comments below)
- ☐ Do not support the proposed revisions (with comments below)
- ☐ Neither support/ not support (with comments below)
- ☐ No response

Please add any comments in relation to your answer to the previous question.

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.

No answer provided.

Provide your views on the proposed revisions to **Part 6, Risk Identification and Assessment. *Other proposals in Part 6***
(See Section I-F in the Explanatory Memorandum)

- ☒ Support the proposed revisions (with no further comments)
- ☐ Support the proposed revisions (with comments below)
- ☐ Do not support the proposed revisions (with comments below)
- ☐ Neither support/ not support (with comments below)
- ☐ No response

Please add any comments in relation to your answer to the previous question.

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.

No answer provided.

Provide your views on the proposed revisions to **Part 7, Responding to Assessed Risks of Material Misstatement. Responses related to Going Concern Section (Part 7.4)**
(See Section I-G in the Explanatory Memorandum)

- ☒ Support the proposed revisions (with no further comments)
- ☐ Support the proposed revisions (with comments below)
- ☐ Do not support the proposed revisions (with comments below)
- ☐ Neither support/ not support (with comments below)
- ☐ No response

Please add any comments in relation to your answer to the previous question.

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.

No answer provided.

Provide your views on the proposed revisions to **Part 7, Responding to Assessed Risks of Material Misstatement. Other proposals in Part 7** (See Section I-G in the Explanatory Memorandum)

- ☒ Support the proposed revisions (with no further comments)
- ☐ Support the proposed revisions (with comments below)
- ☐ Do not support the proposed revisions (with comments below)
- ☐ Neither support/ not support (with comments below)
- ☐ No response

Please add any comments in relation to your answer to the previous question.

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.

No answer provided.

Provide your views on the proposed revisions to **Part 8, Concluding.**
(See Section I-H in the Explanatory Memorandum)

- ☒ Support the proposed revisions (with no further comments)
- ☐ Support the proposed revisions (with comments below)
- ☐ Do not support the proposed revisions (with comments below)
- ☐ Neither support/ not support (with comments below)
- ☐ No response

Please add any comments in relation to your answer to the previous question.

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.

No answer provided.

Provide your views on the proposed revisions to **Part 9, Forming an Opinion and Reporting.**
(See Section I-I in the Explanatory Memorandum)

- ☒ Support the proposed revisions (with no further comments)
- ☐ Support the proposed revisions (with comments below)
- ☐ Do not support the proposed revisions (with comments below)
- ☐ Neither support/ not support (with comments below)
- ☐ No response

Please add any comments in relation to your answer to the previous question.

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.

No answer provided.

Provide your views on the proposed revisions to **Part 10, Audits of Group Financial Statements** and **Appendices**.

- ☒ Support the proposed revisions (with no further comments)
- ☐ Support the proposed revisions (with comments below)
- ☐ Do not support the proposed revisions (with comments below)
- ☐ Neither support/ not support (with comments below)
- ☐ No response

Please add any comments in relation to your answer to the previous question.

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.

No answer provided.

Do you agree with the **Maintenance Approach**? (See Section I-J, paragraphs 72–76 in the Explanatory Memorandum)

☒ Agree (with no further comments)

☐ Agree (with comments below)

☐ Disagree (with comments below)

☐ Neither agree nor disagree

☐ No response

Please add any comments in relation to your answer to the previous question.

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.

No answer provided.

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?

- ☒ Agree (with no further comments)
- ☐ Agree (with comments below)
- ☐ Disagree (with comments below)
- ☐ Neither agree nor disagree
- ☐ No response

Please add any comments in relation to your answer to the previous question. Also, if you disagree, what do you propose and why?

No answer provided.

Final Question

Do you have any other comments?

No answer provided.

Thank you

We thank you for your time spent completing this feedback form. Please press submit for your response to be recorded.

If you have any further comments or attachments, send them to assurance@xrb.govt.nz



Friday, 25 September 2026

Wendy Venter FCA
 Chief Executive
 External Reporting Board
 Level 6, 154 Featherston Street
 Wellington 6011

By email: assurance@xrb.govt.nz

Dear Wendy

XRB Consultation Document: ISA (NZ) for LCE

Chartered Accountants Australia and New Zealand (CA ANZ) appreciates the opportunity to provide comments to the External Reporting Board (XRB) on the above consultation. We make this submission on behalf of our members and in the public interest. This submission is informed by engagement with our members who are assurance practitioners.

We commend the XRB for responding promptly to concerns raised by auditors during the implementation of ISA (NZ) for LCEs. These concerns highlight a barrier to adoption of the standard by audit firms that may discourage its use and limit the benefits it was intended to deliver. We also appreciate the XRB's efficient approach of consulting on these proposals in parallel with the IAASB's proposed amendments to the ISA for LCE standard, which avoids having multiple rounds of amendments.

Our responses to the specific questions raised in the consultation document are in Appendix A. Appendix B provides more information about CA ANZ. Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact Zowie Pateman FCA, Deputy Leader – Reporting and Assurance at Zowie.Pateman@charteredaccountantsanz.com

Yours sincerely

Peter Vial FCA

New Zealand Country Head

Amir Ghandar FCA

Reporting and Assurance Leader

Appendix A

Responses to consultation questions

New Zealand specific amendments

1. Do you agree with our understanding and our view on the necessary amendments?

The XRB consultation document provides a high-level overview of the issue. While this appropriately summarises the concern, it does not provide detailed context on the practical audit scenarios that have highlighted the need for the proposed amendments. This issue was first brought to our attention at the Audit Assistant Conference in Christchurch in March 2026, which was attended by CA ANZ representatives.

The two main use cases that were originally identified for the ISA (NZ) for LCEs standard were audits of registered charities and schools. Many charities with surplus accumulated funds outsource the management of their investments to professional fund managers (investment management service organisations) to support prudent financial management. A charity's annual investor statement from the fund manager contains the number of units held at year-end (which also determines the value of the investment when multiplied by the unit price). However, investments held under custody are held as a single holding in the name of the custodian on behalf of the investor as the beneficial owner. This means the auditor is unable to agree the charity's holdings through independent means and needs to perform additional audit procedures over ownership (the rights and obligations assertion) to obtain sufficient appropriate audit evidence. Ordinarily, the primary way auditors obtain this evidence is through obtaining the service organisation's type 2 controls report which contains an independent assurance report on the description, design and operating effectiveness of controls at the service organisation.

This issue is not unique to New Zealand. In Australia, audits of self-managed superannuation funds (SMSFs) were identified as a potential use case for the ISA for LCE standard. However, many SMSFs use service organisations, and the AUASB noted that the international standard did not include provisions addressing the use of service organisations. This was among the matters considered by the AUASB when it decided not to adopt the ISA for LCE in Australia at that time.¹

The Essential Explanatory Material (EEM) to paragraph A.3 on 'Qualitative Characteristics' conveys that the ISA (NZ) for LCE standard does not include any requirements addressing when an auditor intends to use a type 1 or type 2 controls report as audit evidence. The

¹ [LCE Feedback Statement](#), AUASB, December 2023

wording in the extant standard has been interpreted by some auditors to mean that the ISA (NZ) for LCEs standard cannot be used where the auditor would need to use type 1 or type 2 controls reports. Therefore, we agree that targeted New Zealand amendments are needed to address this issue. We believe that the proposed amendments appropriately respond to this issue while preserving the overall objectives and principles of the ISA (NZ) for LCE standard. In particular, we support the proposal to introduce limited requirements drawn from ISA (NZ) 402 only where necessary to enable the use of controls reports as audit evidence.

2. Do you agree the proposals are appropriately scoped and proportionate? If not, why not and what changes do you suggest?

We consider the proposals appropriately balance audit quality, practicality, and proportionality. In particular, we support excluding requirements that would be unlikely to arise in typical less complex entity audits or that may be inconsistent with the less complex nature of entities within the scope of the standard.

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?

The proposed requirements and EEM provide a clear framework for auditors seeking to use controls reports and appear capable of being applied in practice. The inclusion of definitions, requirements, and guidance concerning the evaluation of controls reports should assist consistent application. However, we recommend the following changes to further improve clarity or application:

- Adding a reference to the service auditor at paragraph 9.4.3 to incorporate paragraph 21 of ISA (NZ) 402. The revised paragraph would read as follows, with new text underlined:

9.4.3. The auditor shall not refer to the work of an auditor's expert or service auditor in an auditor's report containing an unmodified opinion unless required by law or regulation to do so.

- Adding "investment management and custody services" to the example in the EEM at paragraph 6.3.11 in addition to "processing of payroll and payment of payroll taxes", to ensure that it is clear to users that the specific circumstances which have given rise to the proposed amendments are permitted by the standard.

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?

We agree that the expected benefits outweigh the implementation costs and practical challenges identified by the XRB. The proposed amendments should improve the usability of ISA (NZ) for LCE in New Zealand by removing a barrier to adoption while maintaining audit

quality. They should also promote greater consistency in practice by providing a clear basis for the use of controls reports where appropriate.

The implementation costs identified, including methodology updates, staff training and documentation changes, appear reasonable and proportionate. Given that many firms are already familiar with the underlying concepts and requirements in ISA (NZ) 402, we expect those costs to be manageable and largely one-off in nature.

5. Are there any other benefits or costs that we should consider?

We do not anticipate significant additional benefits or costs beyond those identified in the consultation document.

6. Do you agree with an application date of periods beginning on or after 1 March 2026?

We support the proposed application date and the availability of early adoption. The amendments address a barrier to adoption of the ISA (NZ) for LCE standard and therefore there is merit in making the changes available as soon as practicable. We agree that an earlier effective date may avoid unnecessary rework by firms that are currently developing methodologies and tools for less complex entity audit engagements.

IAASB's proposed amendments

7. We seek your views on the questions raised in the IAASB's explanatory memorandum.

We will be making a submission to the IAASB jointly with the ACCA, and we are still assessing the proposals and forming our view. Our preliminary view is that we broadly support the IAASB's proposals, and we agree with the objective of ensuring the standard remains aligned with developments in the full ISAs while preserving its proportionate and scalable nature. We will also raise the issue of the use of service organisations and reliance on controls reports and support the inclusion of provisions equivalent to the proposed New Zealand amendments within the international ISA for LCE standard.

We also encourage the XRB to advocate with the IAASB for the targeted New Zealand amendments concerning controls reports to be incorporated into the international ISA for LCE standard.

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?

We agree with the assessment that the benefits outweigh the costs. The proposed amendments will help maintain confidence in the ISA for LCE standard as a credible and internationally aligned auditing standard while ensuring that important developments in areas such as fraud and going concern are appropriately reflected.

Although firms will incur implementation costs associated with methodology changes, training and quality management systems, these costs are a necessary consequence of maintaining alignment with evolving auditing standards and supporting ongoing audit quality.

9. Are there any other benefits or costs that we should consider?

We do not anticipate significant additional benefits or costs beyond those identified in the consultation document.

10. Do you agree we should replace references from listed entity to publicly traded entity?

We agree with replacing references to 'listed entity' with 'publicly traded entity'. The proposed terminology better aligns with the underlying public interest rationale and is more closely aligned with developments in the international Code of Ethics and auditing standards.

11. Are there any compelling reason changes the XRB should make in New Zealand?

Based on the proposals consulted on, we have not identified any compelling New Zealand-specific circumstances that would justify departing from the IAASB's proposed amendments. We therefore support adoption of the international proposals without substantive New Zealand modifications, other than changes necessary to reflect New Zealand legislative references, terminology and drafting conventions.

We continue to support the XRB's general approach of adopting international standards wherever appropriate, with New Zealand-specific modifications made only where necessary to address local legal, regulatory or public-interest considerations.

Appendix B

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents nearly 143,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live.

Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations.

We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 16 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.

Submission on ISA (NZ) for LCE — Proposed Amendments

Consultation closing 25 September 2026

25 September 2026

New Zealand Auditing and Assurance Standards Board (NZAuASB)

By email: assurance@xrb.govt.nz

Re: Consultation on Proposed Amendments to the ISA (NZ) for LCE

Audit Assistant Limited welcomes the opportunity to comment on the New Zealand Auditing and Assurance Standards Board's (NZAuASB) consultation document, ISA (NZ) for LCE – Proposed Amendments (August 2026).

Audit Assistant is a New Zealand-based cloud audit software platform used by more than 80 audit firms and sole practitioners in New Zealand, as well as firms in Australia and internationally.

We expect a large majority of our New Zealand user base will adopt the ISA (NZ) for LCE, and we have had direct discussions with many of these users about their plans for adoption of the standard, which gives us a reasonably broad vantage point on issues relating to the adoption and application of the standard.

This submission responds only to Part 3 of the consultation – the proposed New Zealand-specific amendments relating to the use of controls reports from service organisations as audit evidence. We have not commented on Part 4 (the IAASB's international proposals to maintain the ISA for LCE).

We have separately provided editorial comments on the drafting of the proposed New Zealand-specific amendments directly to XRB staff.

General comments

We support the proposed targeted amendments. In our engagement with auditors using our platform, the current restriction on relying on Type 1 and Type 2 controls reports as audit evidence has been raised repeatedly as a practical barrier to adopting the ISA (NZ) for LCE.

In particular, we have heard concerns from firms about the treatment of controls reports relating to investments managed by a fund manager – which is not uncommon for entities that meet the criteria to apply the standard, including not-for-profit entities. We have heard that

obtaining sufficient evidence over transactions during the period (not just the year-end balance) is challenging where this goes beyond what is provided in periodic investment statements, and that controls reports are often the only practical source of further audit evidence in these circumstances.

Without the proposed amendments, auditors are more likely to default to the full suite of ISAs (NZ) for these engagements, undermining the proportionate framework the ISA (NZ) for LCE was designed to provide.

Responses to consultation questions (Part 3)

Q1: Do you agree with our understanding and view on the necessary amendments?

Yes. The description of current practice matches what we hear from firms: auditors already obtain and read Type 1 and Type 2 reports to understand the nature of services provided, and often also need to rely on those reports as evidence of the design, implementation and operating effectiveness of controls – which the current standard does not fully support. The proposed amendments correctly address this gap.

Q2: Do you agree the proposals are appropriately scoped and proportionate?

Yes. We support the narrow, targeted drafting approach – adding only the ISA (NZ) 402 requirements needed to support reliance on controls reports, and excluding matters that are unlikely to be relevant to LCE audits (such as component auditor procedures).

Q3: Do you agree the requirements and Essential Explanatory Material are clear and workable?

Broadly yes. That said, we recommend the EEM at paragraph 6.3.11 be amended to include the fund manager example, given it was the catalyst for this amendment and will provide helpful clarity.

Q4: Do you agree the expected benefits of the proposed amendments outweigh the implementation costs and other practical challenges?

Yes. The one-off costs identified (updating methodologies, templates and training) are modest and manageable, particularly as firms are already familiar with the underlying ISA (NZ) 402 approach from full-scope audits. The benefit of removing a genuine adoption barrier, and enabling more LCE audits to be performed proportionately, outweighs these costs.

Q5: Are there any other benefits or costs that we should consider?

One further benefit worth noting: enabling reliance on controls reports should also support audit quality, not just efficiency, in engagements where the auditor otherwise has limited direct visibility over a service organisation's processing. We would also note a cost of inaction – 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.

Q6: Do you agree with an application date of periods beginning on or after 1 March 2026?

Yes. We also strongly support permitting early adoption, particularly if the amendments are issued before 31 December 2026.

International alignment

While we support these amendments being made in New Zealand ahead of any international change, we encourage the NZAuASB and XRB staff to work with the IAASB to pursue equivalent amendments to the international ISA for LCE. This would reduce the risk of a lasting divergence between the New Zealand and international standards, and extend the benefit of this change to auditors and LCEs in other jurisdictions facing the same practical issue. This may also help encourage adoption of the standard by jurisdictions where this matter may currently be cited as an obstacle to adoption.

Closing

We thank the NZAuASB and XRB staff for the opportunity to comment and would be pleased to discuss any aspect of this submission further.

Ngā mihi,



Dave Bassett

Chief Executive

Audit Assistant Limited



EXTERNAL REPORTING BOARD
Te Kāwai Ārahi Pūrongo Mōwaho

5 September 2016

External Reporting Board Policy for dealing with audit reports received under the Companies Act 1993 and the Financial Markets Conduct Act 2013

Purpose of the Policy

1. The Companies Act 1993 and the Financial Markets Conduct Act 2013 both require an auditor to send a copy of the audit report, and a copy of the financial statements or group financial statements, to the External Reporting Board (XRB), and other specified parties, if the financial reporting requirements of the respective Acts have not been complied with. However, the two Acts are silent on the purpose of the provisions and on the actions, if any, that the XRB (and the other specified parties) must take when it receives the audit reports.
2. This Policy sets out the processes that the Board of the XRB and its sub-Boards, the New Zealand Accounting Standards Board (NZASB) and the New Zealand Auditing and Assurance Board (NZAuASB), will follow when audit reports are sent to the XRB by auditors in accordance with the Companies Act 1993 and the Financial Markets Conduct Act 2013. The Policy also applies when audit reports are referred to the XRB by any other party.

Policy¹

3. Audit reports received by the XRB will be reviewed by both the NZASB and the NZAuASB.
4. The NZASB's review will be focused on modified audit opinions in relation to material misstatements in the financial statements.
5. The NZAuASB's review will be focused on modified audit opinions in relation to when the auditor has been unable to obtain sufficient audit evidence.
6. Where the reviews raise issues or trends that relate to XRB strategy, these will be referred to the XRB Board for consideration.
7. Reviews by the NZASB and the NZAuASB will consider implications for the relevant standards by ensuring that the modified audit opinions do not raise any issue about the appropriateness, applicability, clarity and/or completeness of the relevant standards.
8. No action needs to be taken by the XRB, the NZASB or the NZAuASB if the modification of the audit opinion results from non-compliance by an entity of an otherwise appropriate standard (that is, a standard that is applicable, clear, complete and has

¹ The Background and Basis for the Policy is set out in Appendix 1.

appropriate accompanying guidance). Such non-compliance is a matter for the appropriate regulator to deal with.

9. Where the modification of the audit opinion has implications for standards, the NZASB and the NZAuASB will consider their respective standards' convergence and/or harmonisation policies. Matters raised may need to be addressed through, or in cooperation, relevant international standards Boards rather than unilaterally, or, where appropriate, through the provision of additional New Zealand guidance.
10. The actions that may be taken by the NZASB and/or the NZAuASB where the modified audit opinions have implications for any XRB standards include, for example:
 - a. amend a domestic standard;
 - b. raise an issue with the relevant international standards board;
 - c. issue guidance; and/or
 - d. re-examine the initial cost-benefit analysis undertaken when the relevant standard was developed.
11. Reviews by the XRB Board (when necessary) will consider the implications for the XRB strategy to ensure that the multi-standards, multi-tier system remains appropriate. The actions that the XRB Board may take where the modified audit opinions have implications for XRB strategy and/or the standards frameworks include, for example:
 - a. Review the XRB strategy and/or standards frameworks;
 - b. Refer a matter an appropriate party for their further action (for example, the regulators and/or policy makers);
 - c. Refer a matter to the appropriate professional body after consultation with the regulators (for example in the rare and unusual circumstances where an audit qualification was considered to be incorrect);
 - d. Engage with or liaise with policy makers and/or regulators;
 - e. Engage with relevant organisations or industries directly and after consultation with the regulators, to determine the cause of the non-compliance, before taking any further action (for example, where the modified audit opinions indicate a trend of persistent non-compliance by a particular industry or with a particular standard); and/or
 - f. Engage with auditors on their duties under the Companies Act 1993 and the Financial Markets Conduct Act 2013 to send audit reports with modified audit opinions to the XRB.
12. In each instance before the XRB Board takes any action, it would, where necessary, liaise with the regulators and/or policy makers.

Review of this Policy

13. This Policy will be reviewed every three years to ensure that it is still appropriate.

Appendix 1: Background and Basis for the Policy

Legislative provisions

1. The Companies Act 1993 and the Financial Markets Conduct Act 2013 both 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 the respective Acts have not been complied with. However, the two Acts are silent on the purpose of the provisions and on the actions, if any, that the XRB (and the other specified parties) must take when it receives the audit reports.

Companies Act 1993

2. Part 11 of the Companies Act 1993 specifies, among other matters, the requirements for a company's financial reporting and audit of its financial statements. It specifies the companies that must prepare financial statements, and that those financial statements must comply with generally accepted accounting practice (GAAP)². Part 11 also specifies whose financial statements must be subject to audit and that the audit must be carried out in accordance with applicable auditing and assurance standards³. GAAP, applicable financial reporting standards and applicable auditing and assurance standards are defined in the Companies Act 1993 by reference to the Financial Reporting Act 2013. GAAP, applicable financial reporting standards and applicable auditing and assurance standards in the Financial Reporting Act 2013 refer to standards issued by the XRB⁴.
3. Within Part 11, section 207C of the Companies Act 1993 provides that the auditor's report of a company must be sent to the Registrar of Companies and the XRB if the requirements of the Companies Act 1993 have not been complied with:

"If the auditor's report indicates that the requirements of this Act have not been complied with, the auditor must, within 7 working days after signing the report, send a copy of the report and a copy of the financial statements or group financial statements to which it relates to the Registrar and the External Reporting Board".

4. In the context of the requirements of Part 11 of the Companies Act 1993 about audits of a company's financial statements, the reference to non-compliance with "*the requirements of this Act*" in section 207C is read to mean non-compliance with applicable financial reporting standards and applicable auditing and assurance standards.

Financial Markets Conduct Act 2013

5. Part 7 of the Financial Markets Conduct Act 2013 sets out the financial reporting requirements of an "FMC reporting entity"⁵, including the requirements for the

² Sections 200 – 202 of the Companies Act 1993.

³ Sections 206 – 207A of the Companies Act 1993.

⁴ Section 5 of the Financial Reporting Act 2013.

⁵ The meaning of an "FMC reporting entity" is set out in section 451 of the Financial Markets Conduct Act 2013.

preparation⁶ and audit of the financial statements⁷. Financial statements of an FMC reporting entity must comply with GAAP⁸ and the audit of those financial statements must comply with applicable auditing and assurance standards⁹.

6. Similar to the Companies Act 1993, GAAP, applicable financial reporting standards and applicable auditing and assurance standards are defined in the Act by reference to the Financial Reporting Act 2013 (and hence refer to standards issued by the XRB).
7. Within Subpart 3 *Preparation, audit, and lodgement of financial statements* of Part 7 *Financial reporting* of the Financial Markets Conduct Act 2013, section 461G on the auditor's report states:
 - “(1) *The auditor's report on the financial statements or group financial statements that are required to be audited under this subpart must comply with the requirements of all applicable auditing and assurance standards.*
 - (2) *If the auditor's report indicates that the requirements of this Part have not been complied with, the auditor must, within 7 working days after signing the report, send a copy of the report, and a copy of the financial statements or group financial statements to which it relates, to—*
 - (a) *the FMA; and*
 - (b) *the External Reporting Board; and*
 - (c) *in the case of an issuer of debt securities or a manager of a registered scheme, the supervisor.”*
8. In the context of the requirements of Subpart 3 of Part 7 of the Financial Markets Conduct Act 2013 about financial statements and audit of an FMC reporting entity's financial statements, the reference to non-compliance with “*the requirements of this Part*” in section 461G is read to mean non-compliance with the applicable financial reporting standards and applicable auditing and assurance standards.

Functions of the XRB

9. The functions of the XRB are set out in the Financial Reporting Act 2013. Section 12 of the Financial Reporting Act 2013 provides:

“The Board has the following functions:

- (a) *to prepare and, if it thinks fit, issue financial reporting standards for the purposes of any enactment that requires—*
 - (i) *financial statements or group financial statements to comply, or be prepared in accordance, with generally accepted accounting practice or non-GAAP standards;*
or
 - (ii) *a statement, report, or other information to comply, or be prepared in accordance, with financial reporting standards:*
- (b) *to prepare and, if it thinks fit, issue auditing and assurance standards for—*

⁶ Sections 460 – 461 of the Financial Markets Conduct Act 2013.

⁷ Section 461D of the Financial Markets Conduct Act 2013.

⁸ Sections 460 – 461 of the Financial Markets Conduct Act 2013.

⁹ Sections 461F – 461G of the Financial Markets Conduct Act 2013.

- (i) *the purposes of the Auditor Regulation Act 2011 or any other enactment that requires a person to comply with those standards; or*
- (ii) *the purposes of any rules or codes of ethics of an association of accountants where those rules or codes require the association's members to comply with those standards; or*
- (iii) *any other purpose approved by the Minister by notice in writing to the Board:*
- (c) *to prepare and, if it thinks fit, issue authoritative notices for the purposes of the definition of generally accepted accounting practice:*
- (d) *to develop and implement strategies for the issue of standards in order to provide a framework for the Board's overall direction in the setting of standards (including implementing a strategy for tiers of financial reporting in accordance with sections 29 to 33):*
- (e) *to liaise with international or national organisations that perform functions that correspond with, or are similar to, those conferred on the Board:*
- (f) *to perform and exercise the functions, duties, and powers conferred or imposed on it by or under this Act and any other enactments."*

Interpretation of the legislative intent of the provisions of the Companies Act and the Financial Markets Conduct Act for the XRB

10. In determining the intent of legislation in providing for the XRB to receive the audit reports under section 207C of the Companies Act 1993 and Section 461G of the Financial Markets Conduct Act 2013, regard needs to be had to the functions (and role) of the XRB under the Financial Reporting Act 2013.
11. Under the Financial Reporting Act 2013, the key function of the XRB is the setting of accounting and auditing & assurance standards, and the development and implementation of a strategy for an accounting standards framework (XRB strategy). The standard-setting and strategic functions of the XRB are in contrast to the functions of the other specified parties. Those parties have, among other functions, regulatory powers to take enforcement action (where necessary). The functions of the XRB do not extend to the ability to take enforcement action against an entity's non-compliance with the respective Acts. Therefore, unlike the other specified parties, the XRB does not have a legislative responsibility to take any direct regulatory action or make contact with the preparers or auditors of the financial statements about any aspect of the non-compliance.
12. Any action the XRB takes in relation to receiving the audit reports should be consistent with the XRB's role and functions: the actions taken should be for the primary objective of assessing, based on the nature of the non-compliance, whether the non-compliance set out in the audit reports indicates a need to clarify and/or modify accounting standards, auditing & assurance standards and/or the XRB strategy.

What type of audit opinions are we concerned with?

13. Audit reports may contain unmodified audit opinions (unqualified opinions) or modified audit opinions (qualified opinions, adverse opinions or disclaimers of opinion).

14. In the context of the requirements of section 207C of the Companies Act 1993 and section 461G of the Financial Markets Conduct Act 2013, audit reports that are sent to the XRB would be all audit reports that contain modified audit opinions. These would be audit reports that contain audit opinions that indicate non-compliance with the financial reporting and/or audit requirements of the Companies Act 1993 or the Financial Markets Conduct Act 2013.
15. Accounting standards require financial statements to present fairly the financial position, financial performance and cash flows of an entity. There is a presumption in accounting standards that application of applicable financial reporting standards, with additional disclosures when necessary, results in financial statements that achieve such a fair presentation¹⁰. In auditing standards¹¹, the recognition of this presumption requires the financial reporting framework that is used to be a “fair presentation framework”. Auditing standards acknowledge that in complying with a fair presentation framework, additional disclosures may sometimes be necessary and, in extremely rare circumstances, departures may also be necessary.
16. Auditing standards¹² set out the types of modified audit opinions and the circumstances when a modification of an audit opinion is required. An auditor is required to modify the opinion in the auditor’s report when:
 - a. The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
 - b. The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.
17. A material misstatement of the financial statements, based on the audit evidence obtained, may arise in relation to:
 - a. The appropriateness of the selected accounting policies;
 - b. The application of the selected accounting policies; or
 - c. The appropriateness or adequacy of disclosures in the financial statements.
18. A material misstatement of the financial statements, based on auditor’s inability to obtain sufficient appropriate audit evidence (also referred to as “a limitation on the scope of the audit”), may arise in relation to:
 - a. Circumstances beyond the control of the entity;
 - b. Circumstances relating to the nature or timing of the auditor’s work; or
 - c. Limitations imposed by management.
19. The XRB’s interest (and ability to take some action) is more likely to be in those modified audit opinions that indicate material misstatements in the financial statements that arise from audit evidence obtained by the auditor. As these modified

¹⁰ NZ IAS 1 *Presentation of financial statements* and PBE IPSAS 1 *Presentation of financial statements*.

¹¹ ISA(NZ) 700 *Forming an opinion and reporting on financial statements*.

¹² See ISA(NZ) 700 *Forming an opinion and reporting on financial statements*.

opinions focus on material misstatements in financial statements, the issues that arise are more likely to be related to accounting standards (than to auditing & assurance standards or the XRB strategy).

20. The XRB interest (and ability to take action) is less likely in relation to the audit reports received that cover modified opinions that arise from “a limitation on the scope of an audit”. This is because these are often more likely to arise from “practical” issues and are often less likely to arise as a direct result of applying, or not applying, XRB standards or the XRB strategy. Therefore, the XRB is less likely to need to modify accounting standards, auditing & assurance standards or the XRB strategy or take other action (for example, issuing further guidance) in response to this type of modified audit report.
21. Nevertheless, limitations imposed by management may be related to, for example, the governing body considering that an accounting standard requirement is not practicable. Similarly, while auditors not complying with auditing & assurance standards falls, *prima facie*, within the role of the regulator to take action (rather than within the role of the XRB), such non-compliance may indicate that further guidance is required.
22. As such, for the purpose of this policy, all modified audit opinions will be reviewed to determine if any XRB action is required.

What entities and standards are involved?

23. The Companies Act 1993 covers all companies incorporated under that Act. These may be for-profit companies or public benefit entities (PBEs).
24. The Financial Markets Conduct Act 2013 covers FMC reporting entities. These may be entities under any organisational structure (companies, credit unions, building society etc).
25. Entities under both Acts may be in:
 - a. For-profit Tier 1 and Tier 2¹³; or
 - b. PBE Tier 1, Tier 2 or Tier 3¹⁴.
26. Therefore, the modified audit opinions could potentially affect all the accounting standards (except the Tier 4 standards) and all auditing & assurance standards issued by the XRB.

¹³ A Tier 2 for-profit entity that is not an FMC reporting entity may opt out of the audit requirements.

¹⁴ A Tier 4 PBE is not required to have an audit. A Tier 3 PBE with expenses of less than \$1 million is also not required to have an audit.

October 2025

DRAFT XRB Policy when modified audit and assurance reports are received

Purpose of the Policy

1. The Companies Act 1993¹, the Financial Markets Conduct Act 2013 (FMCA 2013)² and the Incorporated Societies Act 2022³ require an auditor to send⁴ a copy of the audit report, along with the financial statements⁵ or group financial statements, to the External Reporting Board (XRB), and other specified parties⁶, if the auditor's report indicates that the requirements of the respective Acts have not been complied with, i.e. the auditor's report contains a 'modified opinion'.
2. The FMCA 2013⁷ requires assurance practitioners to send a copy of the assurance report, along with a copy of the climate statements or group climate statements, to the XRB and other specified parties, if the assurance practitioner's report indicates that the climate reporting requirements of the FMCA 2013 have not been complied with, i.e. the assurance report contains a 'modified conclusion'.
3. Currently, these Acts are silent on the purpose of the provisions and on the actions, if any, that the XRB (and the other specified parties) must take when it receives the modified audit reports or modified assurance practitioner's reports (modified reports).
4. This Policy sets out the processes that the Board of the XRB and its technical boards, the New Zealand Accounting Standards Board (NZASB), the New Zealand Auditing and Assurance Board (NZAuASB) and the Sustainability Reporting Board (SRB), will follow when modified reports are sent to the XRB by auditors⁸. The Policy also applies when audit reports are shared with the XRB by the FMA, the Companies Office, or the Incorporated Societies Registrar.

¹ Section [207C](#)

² Section [461G](#)

³ Section [107](#)

⁴ Auditors can do this via our portal, via email or post.

⁵ For the purposes of this policy, references to "financial statements" include "service performance information" and "entity information" where relevant.

⁶ Other specified parties include the Financial Markets Authority (FMA), the Registrar of Companies and the Supervisor if the reporting entity is an issuer of debt securities or a manager of a registered scheme.

⁷ Section [461ZHB](#)

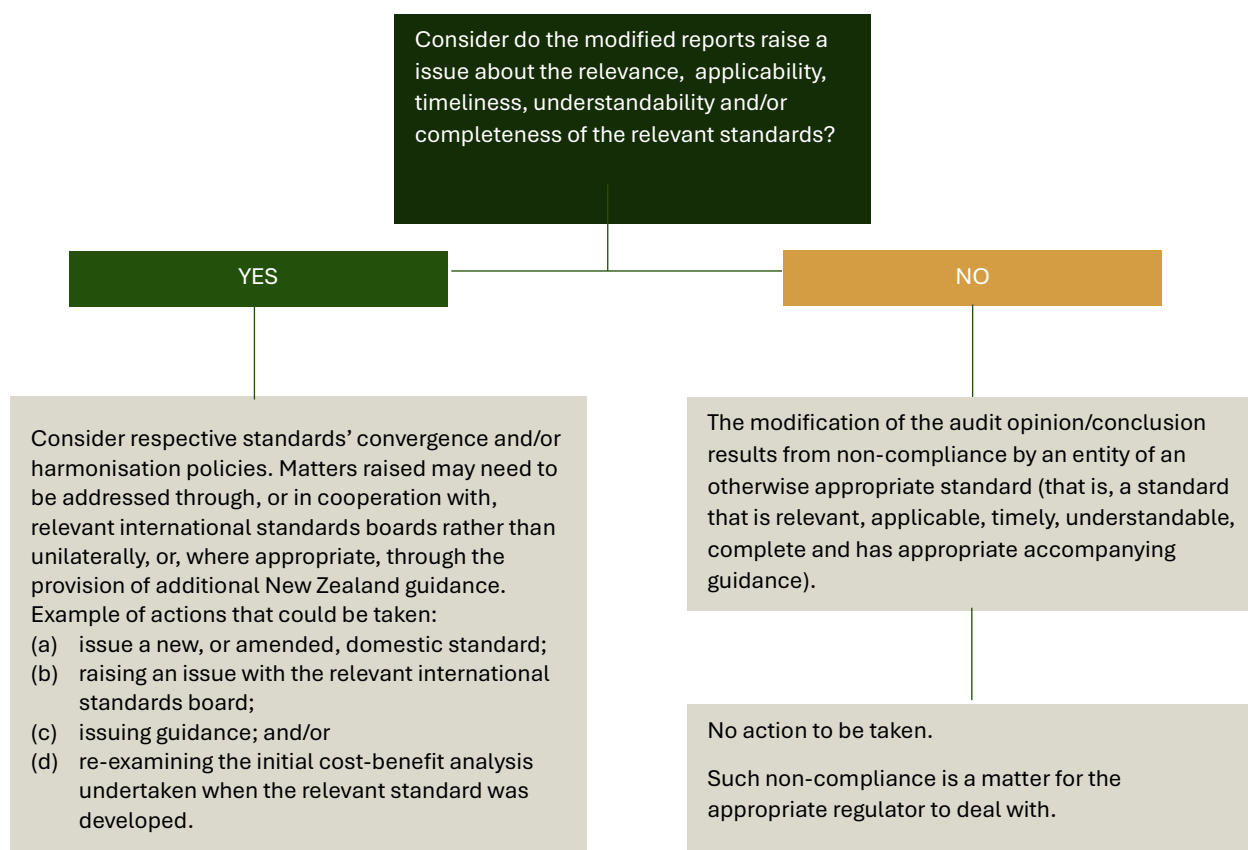
⁸ For the purposes of this policy, auditor also means assurance practitioner.

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5. Modified reports will be considered by the technical boards as follows:

Technical board:	NZAuASB	NZASB	SRB
Consider modified report in respect of:	Financial statements (including service performance information (SPI), where relevant) and GHG disclosures in climate statements or the whole, or other parts of the climate statements	Financial statements (including SPI where relevant)	GHG disclosures in climate statements or the whole, or other parts, of the climate statements
Focus on modified reports in relation to:	Any issues, trends or themes arising from the modifications, relevant to the assurance standards	Any issues, trends or themes arising from the modifications, relevant to the accounting standards	Any issues, trends or themes arising from the modifications, relevant to the climate standards

6. All Boards will consider the modified reports as part of their wider environmental scanning. Noting any issues, trends or themes, particularly if there are issues that relate to the standards themselves. If so, the following chart sets out the actions to be taken by each technical board:



⁹ The Background and Basis for the Policy is set out in Appendix 1.

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7. Where issues or trends are noted that relate to the XRB strategy, these will be referred to the XRB Board for consideration.
8. The actions that the XRB Board may take include, for example:
 - (a) considering the XRB strategy and/or standards frameworks;
 - (b) referring a matter to an appropriate party for their further action (for example, the regulators and/or policy makers);
 - (c) referring a matter to the appropriate professional body after consultation with the regulators (for example in the rare and unusual circumstance where an audit qualification was considered to be incorrect);
 - (d) engaging with or liaising with policy makers and/or regulators;
 - (e) engaging with relevant organisations or industries directly and after consultation with the regulators, to determine the cause of the non-compliance, before taking any further action (for example, where the modified report indicate a trend of persistent non-compliance by a particular industry or with a particular standard); and/or
 - (f) engaging with auditors, or assurance practitioners, on their duties under the relevant Act to send modified reports to the XRB.
9. In each instance before the XRB Board takes any action, it would, where necessary, liaise with the regulators and/or policy makers.
10. The XRB will keep submitted modified audit reports and modified assurance reports on file for 10 years.

Review of this Policy

11. This Policy will be reviewed every three years to ensure that it remains appropriate.

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Appendix 1: Background and Basis for the Policy

What type of audit opinions or assurance conclusions are we concerned with?

1. This policy is concerned with modified audit opinions or modified assurance conclusions that in the context of the requirements in primary legislation are sent to the XRB.
2. Audit reports of financial information may contain an unmodified audit opinion (unqualified opinions) or a modified audit opinion (qualified opinion, adverse opinion or disclaimers of opinion). Similarly, assurance practitioner reports in respect of the GHG disclosures in the climate statements may also contain an unmodified (unqualified) conclusion or a modified assurance conclusion (qualified conclusion, adverse conclusion or disclaimer of conclusion).
3. To understand when and why audit opinions or assurance conclusions may be modified, it is important to first consider the concept of “fair presentation” as it applies across financial statements and climate-related disclosures:
 - **Accounting standards** require financial statements to present fairly the financial position, financial performance and cash flows of an entity. There is a presumption in accounting standards that application of applicable financial reporting standards, with additional disclosures when necessary, results in financial statements that achieve such a fair presentation¹⁰. In auditing standards¹¹, the recognition of this presumption requires the financial reporting framework that is used to be a “fair presentation framework”. Auditing standards acknowledge that in complying with a fair presentation framework, additional disclosures may sometimes be necessary and, in extremely rare circumstances, departures may also be necessary.
 - **Aotearoa New Zealand Climate Standards (NZ CS)** require an entity to fairly present its climate-related disclosures¹². There is a presumption in NZ CS that applying NZ CS is presumed to result in climate-related disclosures that achieve a fair presentation. When compliance with the specific requirements in NZ CS is insufficient to show a fair presentation, additional disclosures must be provided¹³.
4. The XRB interest (and ability to take some action) is less likely in relation to the audit reports received that cover modifications that arise from “a limitation on the scope of an audit”. This is because these are often more likely to arise from “practical” issues and are often less likely to arise as a direct result of applying, or not applying, XRB standards or the XRB strategy. Therefore, the XRB is less likely to need to modify XRB standards or the XRB strategy or take other action (for example, issuing further guidance) in response to this type of modified report.
5. Nevertheless, limitations imposed by management may be related to, for example, the governing body considering that an accounting standard requirement is not practicable. Similarly, while auditors not complying with auditing and assurance standards falls, prima facie, within the role of the regulator to take action (rather than within the role of the XRB), such non-compliance may indicate that further guidance is required.

¹⁰ NZ IAS 1 *Presentation of Financial Statements* and PBE IPSAS 1 *Presentation of Financial Statements*. From 1 Jan 2027: NZ IFRS 18 *Presentation and Disclosure in Financial Statements* supersedes NZ IAS 1.

¹¹ ISA (NZ) 700 (Revised) *Forming an Opinion and Reporting on Financial Statements*.

¹² <https://standards.xrb.govt.nz/standards-navigator/nz-cs-3/#6>

¹³ <https://standards.xrb.govt.nz/standards-navigator/nz-cs-3/#7>

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As such, for the purpose of this policy, all modified reports will be considered to determine if any action is required by either the XRB or its technical boards.

When can an audit or assurance report be modified?

6. Auditing and assurance standards set out the types of modified reports and the circumstances when a modified report is required.
7. An auditor is required to modify their opinion over **financial statements** when:
 - (a) The auditor concludes that, based on the audit evidence obtained, the financial statements as a whole are not free from material misstatement; or
 - (b) The auditor is unable to obtain sufficient appropriate audit evidence to conclude that the financial statements as a whole are free from material misstatement.
8. A material misstatement of the financial statements, based on the audit evidence obtained, may arise in relation to:
 - (a) The appropriateness of the selected accounting policies;
 - (b) The application of the selected accounting policies; or
 - (c) The completeness, accuracy and presentation of disclosures in the financial statements.
9. An assurance practitioner modifies their opinion over **GHG emissions disclosures** when there is a material misstatement of the GHG emissions disclosures in the climate statements, based on the audit evidence obtained. This may arise in relation to:
 - (a) Appropriateness or application of selected methodology; or
 - (b) Appropriate evaluation of the GHG emissions disclosures in the climate statements.
10. A material misstatement of the financial statements or climate statements, based on an auditor's inability to obtain sufficient appropriate audit evidence (also referred to as "a limitation on the scope of the audit"), may arise in relation to:
 - (a) Circumstances beyond the control of the entity;
 - (b) Circumstances relating to the nature or timing of the auditor's work; or
 - (c) Limitations imposed by management.

What entities and standards are involved?

11. The Companies Act 1993 covers all companies incorporated under that Act. These may be for-profit companies or companies that are public benefit entities (PBEs). The Act only requires certain companies to prepare financial statements in line with GAAP, or to have their financial statements audited.
12. The Financial Markets Conduct Act 2013 covers FMC reporting entities and climate reporting entities (FMC reporting entities with higher levels of public accountability). These may be entities under any organisational structure (companies, credit unions, building societies, etc.).
13. The Incorporated Societies Act 2022 covers all societies incorporated under that Act. The Act only requires certain societies to prepare financial statements in line with GAAP, or to have their financial statements audited.
14. Entities under these Acts that have their financial statements or climate statements audited or assured may be subject to the following accounting standards and where applicable the following climate standards:

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- (a) For-profit Tier 1 or Tier 2¹⁴; or
- (b) PBE Tier 1, Tier 2 or Tier 3¹⁵, or/and
- (c) Aotearoa New Zealand Climate Standards.

Legislative provisions

Companies Act 1993

15. Part 11 of the Companies Act 1993 specifies, among other matters, the requirements for a company's financial reporting and audit of its financial statements. It specifies the companies that must prepare financial statements, and that those financial statements must comply with generally accepted accounting practice (GAAP)¹⁶. Part 11 also specifies whose financial statements must be subject to audit and that the audit must be carried out in accordance with applicable auditing and assurance standards¹⁷. GAAP, and applicable financial reporting standards are defined in the Companies Act 1993 by reference to the Financial Reporting Act 2013. GAAP, applicable financial reporting standards in the Financial Reporting Act 2013 refer to standards issued by the XRB¹⁸.
16. Within Part 11, section 207C of the Companies Act 1993 provides that the auditor's report of a company must be sent to the Registrar of Companies and the XRB if the requirements of the Companies Act 1993 have not been complied with:

"If the auditor's report indicates that the requirements of this Act have not been complied with, the auditor must, within 7 working days after signing the report, send a copy of the report and a copy of the financial statements or group financial statements to which it relates to the Registrar and the External Reporting Board".
17. In the context of the requirements of Part 11 of the Companies Act 1993 the reference to non-compliance with "*the requirements of this Act*" in section 207C is read to mean non-compliance with applicable financial reporting standards.

Financial Markets Conduct Act 2013

In respect of financial statements

18. Part 7 of the Financial Markets Conduct Act 2013 sets out the financial reporting requirements of an "FMC reporting entity"¹⁹, including the requirements for the preparation²⁰ and audit of the financial statements²¹. Financial statements of an FMC reporting entity must comply with GAAP²² and the audit of those financial statements must comply with applicable auditing and assurance standards²³.

¹⁴ A Tier 2 for-profit entity that is not an FMC reporting entity may opt out of the audit requirements.

¹⁵ A Tier 4 PBE is not required under statute to have an audit. PBE standards public sector or Not-for-Profit.

¹⁶ Sections 200 – 202 of the Companies Act 1993.

¹⁷ Sections 206 – 207A of the Companies Act 1993.

¹⁸ Section 5 of the Financial Reporting Act 2013.

¹⁹ The meaning of an "FMC reporting entity" is set out in section 451 of the Financial Markets Conduct Act 2013.

²⁰ Sections 460 – 461 of the Financial Markets Conduct Act 2013.

²¹ Section 461D of the Financial Markets Conduct Act 2013.

²² Sections 460 – 461 of the Financial Markets Conduct Act 2013.

²³ Sections 461F – 461G of the Financial Markets Conduct Act 2013.

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19. Similar to the Companies Act 1993, GAAP and applicable financial reporting standards are defined in the Act by reference to the Financial Reporting Act 2013 (and hence refer to standards issued by the XRB).
20. Within Subpart 3 *Preparation, audit, and lodgement of financial statements* of Part 7 of the Financial Markets Conduct Act 2013, section 461G on the auditor's report states:
 - (1) The auditor's report on the financial statements or group financial statements that are required to be audited under this subpart must comply with the requirements of all applicable auditing and assurance standards.
 - (2) If the auditor's report indicates that the requirements of this Part have not been complied with, the auditor must, within 7 working days after signing the report, send a copy of the report, and a copy of the financial statements or group financial statements to which it relates, to—
 - (a) the FMA; and
 - (b) the External Reporting Board; and
 - (c) in the case of an issuer of debt securities or a manager of a registered scheme, the supervisor.
21. In the context of the requirements of Subpart 3 of Part 7 of the Financial Markets Conduct Act 2013 about the financial statements, and the audit of an FMC reporting entity's financial statements, the reference to non-compliance with "*the requirements of this Part*" in section 461G is read to mean non-compliance with the applicable financial reporting standards.

In respect of climate statements

22. Part 7A of the Financial Markets Conduct Act 2013 sets out the requirements for climate-related disclosures for "climate reporting entities" who are certain FMC reporting entities with a higher level of public accountability²⁴. Part 7A also includes requirements for the assurance of greenhouse gas (GHG) emissions disclosures in the climate statements (or any other part that may voluntarily be subject to an assurance engagement)²⁵. Climate statements of a climate reporting entity must comply with the climate related disclosure framework²⁶ and the assurance of those relevant parts of the climate statements must comply with applicable auditing and assurance standards²⁷.
23. Climate statements, climate-related disclosure framework, applicable climate standard and assurance practitioner are defined in the Act by reference to the Financial Reporting Act 2013. Climate reporting entity is defined within the Financial Markets Conduct Act 2013²⁸.
24. Within Subpart 4 *Assurance engagements* of Part 7A of the Financial Markets Conduct Act 2013, section 461ZHB on the assurance practitioner's report states:
 - (1) The assurance practitioner's report on the climate statements or group climate statements prepared by an entity under any of sections 461Z to 461ZC must comply with the requirements of all applicable auditing and assurance standards.
 - (2) If the assurance practitioner's report indicates that the requirements of this Part have not been complied with, the assurance practitioner must, within 20 working days after signing the report, send a copy of the report, and a copy of the climate statements or group climate statements to which it relates, to—

²⁴ Section 461K outlines those FMC reporting entities considered to have a higher level of public accountability

²⁵ Section 461ZH and Section 461ZHC

²⁶ Section 461Z -461ZC

²⁷ Section 461ZHA

²⁸ Section 461O

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- (a) the FMA; and
 - (b) the External Reporting Board; and
 - (c) in the case of a climate reporting entity that is an issuer of debt securities or a manager of a registered scheme, the supervisor.
 - (3) An assurance practitioner who contravenes subsection (2) commits an offence and is liable on conviction to a fine not exceeding \$50,000.
25. Section 461ZHC in Subpart 4 *Assurance engagements* of Part 7A of the Financial Markets Conduct Act 2013 states that the assurance engagement may cover the whole, or other parts, of the climate statements or group climate statements (i.e. beyond the mandatory assurance engagement of GHG emissions disclosures in the climate statements). Section 46ZHC(2)(b) states that if the assurance engagement does cover the whole, or other parts, of the statements, Subpart 4 applies to the whole of the assurance engagement. Subpart 4 includes section 461ZHB which contains the requirement to file the copy of any modified assurance report, indicating non-compliance with Part 7A, with the FMA and XRB.
26. In the context of the requirements of Subpart 4 of Part 7A of the Financial Markets Conduct Act 2013 about the climate statements, and the assurance of the applicable parts of an FMC reporting entity's climate statements, the reference to non-compliance with "*the requirements of this Part*" in section 461ZHB(2) is read to mean non-compliance with the requirements stated in sections 461Z to 461ZC which refers to the climate-related disclosure framework.

Incorporated Societies Act 2022

27. Part 3 of the Incorporated Societies Act 2022, subpart 7, specifies among other matters, the requirements for an incorporated society's financial reporting and audit of its financial statements. It specifies those incorporated societies' financial statements that must comply with GAAP or a non-GAAP standard²⁹. Subpart 7 also specifies whose financial statements must be subject to audit (with reference to the Incorporated Societies Regulations 2023) and that the audit must be carried out in accordance with applicable auditing and assurance standards³⁰. GAAP and non-GAAP standards are defined in the Incorporated Societies Act 2022 by reference to the Financial Reporting Act 2013.
28. In Part 3 of the Incorporated Societies Act 2022, section 107 provides that the auditor's report of an incorporated society must be sent to the Registrar of Incorporated Societies and the XRB if the requirements of the Incorporated Societies Act 2022 have not been complied with:
- "If the auditor's report indicates that the requirements of this Act have not been complied with, the auditor must, within 7 working days after signing the report, send a copy of the report and a copy of the financial statements to which it relates to the Registrar and the External Reporting Board".*
29. In the context of the requirements of Part 3 of the Incorporated Societies Act 2022, the reference to non-compliance with "*the requirements of this Act*" in section 107 is read to mean non-compliance with GAAP.
30. The requirement for auditors of incorporated societies to submit modified reports applies only to those incorporated societies registered under the Incorporated Societies Act 2022 and includes those that are also registered charities. For the purposes of filing with the XRB, the threshold for

²⁹ Section 102

³⁰ Section 105 and Section 107

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this requirement is: if in each of the 2 preceding accounting periods of the society, the total operating expenditure of the society and all entities it controls (if any) is \$3 million or more³¹.

Functions of the XRB

31. The functions of the XRB are set out in the Financial Reporting Act 2013. Section 12 of the Financial Reporting Act 2013 provides that:

“The Board has the following functions:

- (a) to prepare and, if it thinks fit, issue financial reporting standards for the purposes of any enactment that requires—
 - (i) financial statements or group financial statements to comply, or be prepared in accordance, with generally accepted accounting practice or non-GAAP standards; or
 - (ii) a statement, report, or other information to comply, or be prepared in accordance, with financial reporting standards:
- (aa) to prepare and, if it thinks fit, issue climate standards for the purposes of any enactment that requires climate statements or group climate statements, or a statement, report, or other information to comply, or be prepared in accordance, with the climate-related disclosure framework:
- (b) to prepare and, if it thinks fit, issue auditing and assurance standards for—
 - (i) the purposes of the Auditor Regulation Act 2011 or any other enactment that requires a person to comply with those standards; or
 - (ii) the purposes of any rules or codes of ethics of an association of accountants where those rules or codes require the association’s members to comply with those standards; or
 - (iii) any other purpose approved by the Minister by notice in writing to the Board:
- (c) to prepare and, if it thinks fit, issue authoritative notices for the purposes of—
 - (i) the definition of generally accepted accounting practice; or
 - (ii) the definition of climate-related disclosure framework:
- (d) to develop and implement strategies for the issue of standards in order to provide a framework for the Board’s overall direction in the setting of standards (including implementing a strategy for tiers of financial reporting in accordance with sections 29 to 33):
- (e) to liaise with international or national organisations that perform functions that correspond with, or are similar to, those conferred on the Board:
- (f) to perform and exercise the functions, duties, and powers conferred or imposed on it by or under this Act and any other enactments.”

Interpretation of the legislative intent of the provisions in the primary legislation

32. In determining the legislative intent behind the provision for the XRB to receive modified reports, it is essential to consider the functions and role of the XRB under the Financial Reporting Act 2013.
33. The standard-setting and strategic functions of the XRB set out in the Financial Reporting Act (outlined above) are in contrast to the functions of the other specified parties. Those parties have, among other functions, regulatory powers to take enforcement action (where necessary). The functions of the XRB do not extend to the ability to take enforcement action against an entity’s non-compliance with the respective Acts. Therefore, unlike the other specified parties, the XRB does not have a legislative responsibility to take any direct regulatory action or make contact with the preparers or auditors of the financial statements or climate statements about any aspect of the non-compliance.

³¹ As per the Incorporated Societies Regulations 2023 (the threshold set by the Charities Act 2005 is irrelevant for purposes of filing with the XRB).

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34. Any action the XRB takes in relation to receiving the modified reports should be consistent with the XRB's role and functions.

DRAFT**Version control**

Version	Date	Changes
1.0	5 September 2016	Board approved.
2.0	DRAFT	Major revision to policy to include references to incorporated societies, climate reporting, and new technical board – Sustainability Reporting Board (SRB).