Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

New Zealand Auditing and Assurance Standards Board

MEETING PACK

for

NZAuASB Board Meeting (PUBLIC)

Thursday, 3 December 2026

11:00 am (NZDT)

Held at:

XRB Boardroom

Level 6, 154 Featherston Street, Wellington

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AGENDA

NZAUASB BOARD MEETING (PUBLIC)

Name:	New Zealand Auditing and Assurance Standards Board
Date:	Thursday, 3 December 2026
Time:	11:00 am to 4:30 pm (NZDT)
Location:	XRB Boardroom, Level 6, 154 Featherston Street, Wellington
Committee Members:	Graeme Pinfold (Committee Chair), Darby Healey, Doug Niven, Michael Bradbury, Rebecca Palmer, Richard Kirkland, Todd Beardsworth, Vasana Vanpraseuth
Attendees:	Anna Herlender, Bruce Mcniven, Catherine Thompson, Karen Tipper, Lisa Thomas, Misha Pieters, Sharon Walker, Thinus Peyper, Wendy Venter

1. Open Meeting (PRIVATE)
2. (PRIVATE)
3. (PRIVATE)
4. (PRIVATE)
5. (PRIVATE)
6. Managed investment schemes guidance (PUBLIC)

6.1 Summary paper

11:00 am (30 min)

Thinus Peyper

For Noting

Paper

Supporting Documents:

6.1.a	BMSP_Valuation-evidence-guide_12_2026.docx	8

6.2 Valuation evidence guide

11:30 am (30 min)

Thinus Peyper

For Decision

Paper

Supporting Documents:

6.2.a	Valuation-evidence-guide_draft_post-stakeholder-feedback.docx	11

7. EG Au8 (PUBLIC)

7.1 Summary paper

12:00 pm (15 min)

Sharon Walker

For Noting

Paper

Supporting Documents:

7.1.a	BMSP-EG Au8.docx	35

7.2 Draft control objectives

12:15 pm (30 min)

Sharon Walker

For Discussion

Paper

Supporting Documents:

7.2.a	Draft-Control-objectives_EGAu8_App-3.docx	41

7.3 LUNCH

12:45 pm (45 min)

8. Less complex entities amending standard (PUBLIC)

8.1 Summary paper

1:30 pm (5 min)

Bruce Mcniven

For Noting

Paper

Supporting Documents:

8.1.a	BMSP-ISA-for-LCE_Dec_2026.docx	62

8.2 Amending standard

1:35 pm (10 min)

Bruce Mcniven

For Decision

Paper

Supporting Documents:

8.2.a	Amendments-to-ISAforLCE_2026.docx	69

8.3 Basis of conclusions

1:45 pm (15 min)

Bruce Mcniven

For Decision

Paper

Supporting Documents:

8.3.a	Basis-for-conclusions-ISANZforLCE_2026.docx	78

8.4 Certificate signing memo 2:00 pm (5 min)

Bruce Mcniven

For Decision

Paper

Supporting Documents:

8.4.a	Certificate-signing-memorandum_ISAforLCE.docx	83

8.5 RS Act Assessment to support CAS 2:05 pm (5 min)

For Decision

Paper

Supporting Documents:

8.5.a	RS-Act-assessment_ISAforLCE-domestic-amendments_2026.docx	87

8.6 Memo from NZAuASB Chair to CE 2:10 pm (5 min)

Bruce Mcniven

For Decision

Paper

Supporting Documents:

8.6.a	Memo-from-technical-board-chair-to-CE_2026-LCE.docx	102

9. Audit evidence and risk response (PUBLIC)

9.1 Summary paper 2:15 pm (5 min)

Karen Tipper

For Noting

Paper

Supporting Documents:

9.1.a	Summary-paper-AERR-NZAuASB-December_26.docx	103

9.2 Issues paper 2:20 pm (20 min)

Supporting Documents:

9.2.a	NZAuASB-AERR-Issues-Paper-3-December_2026.docx	107

9.3 Draft response 2:40 pm (15 min)

Karen Tipper

For Decision

Paper

Supporting Documents:

9.3.a	Draft NZAuASB-IAASB-AERR-Integrated-Response-Form-December_2026.docx	119

9.4 Draft CAS assessment file note — 2:55 pm (5 min)

Karen Tipper

For Noting

Paper

Supporting Documents:

9.4.a	CAS-File-note.docx	140

9.5 Submissions received

For Noting

Paper

Supporting Documents:

9.5.a	The Audit Office-submission-on-proposed-changes-to-AERR.pdf	158

9.6 AFTERNOON TEA — 3:00 pm (15 min)

10. Firm culture and governance

10.1 Summary paper — 3:15 pm (10 min)

Lisa Thomas

For Noting

Paper

Supporting Documents:

10.1.a	BMSP-Firm-Culture-and-Governance.docx	169

10.2 Draft NZ wrap around — 3:25 pm (30 min)

Lisa Thomas

For Decision

Paper

Supporting Documents:

10.2.a	Draft-NZ-wrap-around.docx	172

10.3 Draft CAS assessment file note — 3:55 pm (5 min)

Lisa Thomas

For Discussion

Paper

Supporting Documents:

10.3.a	Draft-CAS-assessment-file-note_FCG.docx	179

10.4 Developing IESBA exposure draft — 4:00 pm (10 min)

Lisa Thomas

For Noting
LATE PAPER

11. Technology (PUBLIC)

11.1 Summary paper

4:10 pm (10 min)

Lisa Thomas

For Noting
Paper

Supporting Documents:

11.1.a	BMSP-Technology.docx	194

12. Sustainability assurance implementation (PUBLIC)

12.1 Summary paper

4:20 pm (10 min)

Anna Herlender

For Noting
Paper

Supporting Documents:

12.1.a	BMSP-Sustainability-assurance-implementation.docx	197

13. Close Meeting (PRIVATE)

13.1 Close meeting

4:30 pm

For Noting
Next meeting: NZAuASB Board Meeting (Public) - 11 Feb 2027, 11:00 am

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EXTERNAL REPORTING BOARD

NZAuASB Board meeting summary paper

Meeting date:	3 December 2026
Subject:	**Valuation evidence guide**
Date:	19 November 2026
Prepared by:	Thinus Peyper
Reviewed by:	Sharon Walker and Karen Tipper

☒ **Action Required** ☐ **For Information Purposes Only**

Agenda item objectives

1. The objective of this agenda item is to:
   - update the Board on stakeholder feedback and how staff addressed it; and
   - seek approval to issue the guide, subject to feedback from the 30 November working group.

Background

2. At its October meeting, the NZAuASB supported the overall direction of the draft guide. The Board provided the following directions for its further development:
   (a) to retain the principles-based approach and add a simpler example (Example 1 added);
   (b) to clarify the different roles of controls reports (clarified in Steps 2 and 3);
   (c) to consider the implications of the Financial Markets Authority's (**FMA**) related party guidance on the risk assessment section of the guide (described in Step 2);
   (d) to revisit the statement on developing a point estimate (deleted);
   (e) to move and reframe the overview of the guide as an appendix (moved and no longer a decision tree); and
   (f) to seek stakeholder views on whether the guide should have an effective date (see paragraph 7 below).
3. Staff refined the draft and shared it with practitioners, the FMA, industry and the External Reporting Advisory Panel for feedback.
4. Staff have considered all the feedback received to date. The themes and our responses are summarised in the table below. A final working group meeting on 30 November 2026 will focus on identifying any remaining significant issues. Staff will provide a verbal update of any significant feedback to the Board.
5. The FMA Audit quality monitoring report 2026 includes a section on managed investment schemes (pages 13–17). We have engaged closely with the FMA throughout the development of this guide to make sure that key messages in the guide align with the report.

Matters to consider

Stakeholders support the guide and suggest clarifications

6. Feedback indicated strong support for the guide. Stakeholders said the guidance is needed and timely and welcomed the inclusive approach to developing it. Feedback sought targeted clarifications rather than a change of direction. The main themes, and how staff responded, are set out in the table below.

Table 1: Feedback themes and what staff did

Theme	What we did
Reinforce management's responsibility for the reported fair value	Strengthened the message that management is responsible for the fair value reported, including when it relies on information from the investee fund or service providers. Made this clearer in the key messages and Step 1 on understanding the investor fund's valuation process and oversight.
Align risk assessment with the unit of account	Clarified that management, not the auditor, determines the unit of account[1] and that risk is assessed at the valuation assertion level for the investor fund's interest, not for each holding. Separated the structure of the investment from valuation risk. Clarified that limited availability of evidence affects the response, not necessarily the risk. Recognised process and operational risk, and the role of materiality.
Clarify when look-through is needed	Clarified that look-through is not the default. It depends on the assessed risk and the persuasiveness of other evidence already obtained. It is only relevant where audited financial statements are not available.
Improve the flow and wording of Step 3	Restructured Step 3 on responding to assessed risks to improve the flow. Corrected the description of back-testing. Added the use of recent transactions to test whether the redemption price is executable. Removed wording that could discourage the use of controls reports and benchmarking.
Make Example 2 less like a checklist	Streamlined Example 2 which illustrates the audit work effort where audited financial statements are available but reporting dates do not align, and the underlying investments are predominantly private assets, used a different heading structure, and built it around the scenario, weaving in the dates. It no longer tries to cover every source of evidence in the body of the guide. Removed look-through work that did not belong in the example.

Staff do not recommend an effective date

7. Stakeholder feedback received to date did not indicate a need for an effective date. The guide supports the application of existing requirements in the International Standards on Auditing (New Zealand) and does not introduce new ones, so staff do not recommend an effective date. Staff will seek practitioners' views at the 30 November working group meeting.

[1] The unit of account is the level at which an asset or liability is aggregated or disaggregated for recognition purposes. For an investor fund, the unit of account is the interest held in an investee fund. The fair value measurement is therefore directed at that interest.

We are coordinating with the AUASB

8. XRB staff and Australian Auditing and Assurance Standards Board (**AUASB**) staff meet fortnightly. We have kept AUASB staff informed as our guide has been refined. The AUASB staff continue to develop a separate valuation guide and meet with Australian stakeholders.

Recommendations

9. The NZAuASB is asked to:

- NOTE the feedback received and how staff addressed it; and
- APPROVE the final draft valuation evidence guide, subject to any remaining refinements requested by the working group and the Board.

Next steps

10. Subject to the Board's approval and feedback from the working group, staff will:

(a) make any remaining refinements to the final draft guide;

(b) publish the guide on the XRB website in mid-December 2026;

(c) continue to monitor developments of Australian guidance.

Material presented

- Board meeting summary paper
- Valuation evidence guide (agenda item 6.2)

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EXTERNAL REPORTING BOARD



Auditing investments in managed funds

Valuation evidence guide

December 2026

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STAFF WORKING DRAFT

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Scope of this guide

This guide assists auditors in obtaining sufficient appropriate audit evidence about the valuation of an investor fund's investments in unlisted investee funds. It supports auditors to apply the auditing standards issued by the XRB in responding to assessed risks of material misstatement relating to that valuation. It may also be useful to preparers, regulators and other stakeholders.

Investor 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. As a result, auditors may have limited access to some information and available information may not align with the investor fund's balance date.

These circumstances can create challenges in obtaining sufficient appropriate audit evidence of investment valuations, which are often the most material balances in the financial statements.

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. Different circumstances may result in different combinations of information and procedures being sufficient to obtain appropriate audit evidence. The guide should not be interpreted as requiring all information sources to be obtained, or all procedures described, in every circumstance.

The guidance is based on a structure in which an investor fund buys and sell units in an investee fund. The principles in this guide are also relevant to investments held through limited partnerships or other legal structure.

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 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 understanding management's information and processes

Management[1] is responsible for preparing the financial statements and supporting the fair value reported for its investments. That responsibility remains with the investor fund even when management uses information prepared by management of the investee fund or their service providers.

The auditor starts by understanding management's valuation process, oversight, monitoring activities and the information management use 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.

Risk assessment is key

The auditor considers the extent to which the fair value of the investor fund's interest in the investee fund is likely to be materially misstated. The nature and extent of audit work depend on the assessed risks of material misstatement relating to the valuation assertion.

Factors such as complexity, subjectivity, estimation uncertainty, and management bias, may affect the likelihood of a material misstatement. The size of the investor fund's interest in the investee

[1] Management is referring the Manager of a management investment scheme.

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fund may affect the potential magnitude of a misstatement. Size is only one consideration: a smaller interest may not necessarily mean the financial statements are free of material misstatement, particularly where the likelihood factors are present or where several smaller interests could be misstated in the same way. The auditor considers likelihood and magnitude together when assessing the risk of material misstatement.

Understand available information

Information may be maintained by management of the investee fund, fund 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.

Limitations in the availability, timing or reliability of audit evidence may affect the auditor's response to risk, but do not necessarily increase the risk of material misstatement.

Different sources of information may serve different purposes. The persuasiveness of audit evidence varies.

Limited direct access to underlying information does not remove the auditor's responsibility to obtain sufficient appropriate audit evidence. The auditor determines whether additional information or other audit evidence is necessary and performs appropriate procedures to obtain that evidence. If sufficient appropriate audit evidence cannot be obtained, the auditor considers the implications for the auditor's report.

Build evidence from multiple sources

In the circumstances addressed by this guide, a single source of information will not ordinarily provide sufficient appropriate audit evidence about the valuation assertion. Auditors build a body of audit evidence from information obtained from different sources and evaluate how that information corroborates or contradicts management's assertions.

The nature and extent of information obtained, and the procedures performed will depend on the assessed risks and the circumstances of the investment. Different combinations of information and procedures may provide sufficient appropriate audit evidence in different circumstances.

Apply professional judgement and scepticism

Professional judgement and professional scepticism are critical when evaluating the relevance and reliability of information and resolving contradictory information.

Professional judgement and professional scepticism are also important when determining whether sufficient appropriate audit evidence has been obtained.

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. Private assets can be difficult to value and may rely on significant judgement, assumptions and estimation. The Financial

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Markets Authority (**FMA**) has observed increasing exposure to private equity, private debt, unlisted property and infrastructure investments within KiwiSaver portfolios.[2] While these investments currently represent a relatively small proportion of total assets under management,[3] the FMA notes that private assets are increasingly being added to portfolios and may present valuation, liquidity and transparency challenges.[4]

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 administrators, 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 auditors' 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 of investment valuations becomes increasingly important.

Financial reporting principles drive the auditor's approach

Identify the investment being valued (understand management's unit of account)

Management determines the unit of account when it recognises and measures the investment under the applicable financial reporting framework. The auditor identifies the asset for which the investor fund has recognised a fair value measurement and evaluates whether management's unit of account is in accordance with the financial reporting requirements. The unit of account determines the level at 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.[5] New Zealand equivalents to International Financial Reporting Standards (**NZ IFRS**) determine the unit of account. NZ IFRS 13 provides the framework for measuring the fair value of that asset or liability. NZ IFRS 13 requires that the fair value of a group of assets or liabilities be measured as the exit price in an orderly transaction between market participants, applying market assumptions to the group as a whole.[6]

Investment entities measure interests in investee funds at fair value

Investment entities measure and evaluate substantially all of their investments on a fair value basis, because using fair value results in more relevant information than, for example, consolidating its subsidiaries or using the equity method for its interests in associates or joint ventures.[7] NZ IFRS 10, NZ IAS 27 and NZ IAS 28 are the applicable NZ IFRS 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.[8]

For an investor fund, the unit of account is each interest held in an investee fund. 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.

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2 Management is referring the Manager of a management investment scheme.
2 FMA KiwiSaver Annual Report 2025, Private Assets in KiwiSaver section.
3 FMA KiwiSaver Annual Report 2025, Private Assets in KiwiSaver section.
4 FMA KiwiSaver Annual Report 2025, Private Assets in KiwiSaver section.
5 NZ IFRS 13, *Fair Value Measurement* – Appendix A, definition of "unit of account"
6 NZ IFRS 13 – paragraphs 13–14
7 NZ IFRS 10, *Consolidated Financial Statements* – paragraphs 27 and B85K
8 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*

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.[9]

Because the unit of account is the investor fund's interest in the investee fund, the fair value measurement is directed at that investment. 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 underlying holdings and valuation processes may provide audit evidence of the fair value of the investor fund's interest. Using that information does not change the unit of account.

Four steps for obtaining audit evidence on valuation

This framework sets out four steps, including examples of information and procedures that may be relevant in different circumstances.

Step 1: Understand the investor fund’s valuation process and oversight

The auditor begins with management because the investor fund is responsible for preparing the financial statements and supporting the fair value reported for its investments. That responsibility remains with the investor fund even when management uses information prepared by management of the investee fund or their service providers.

The auditor starts by understanding the nature and structure of the investee fund, the parties involved, how information flows between them and the valuation judgements needed. The auditor then understands how management obtains comfort over the value of the investment in investee fund.

Management’s valuation process and oversight arrangements, 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 differ depending on whether the investee fund is internally or externally managed.

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 investee fund, the parties involved and the judgements needed

The auditor seeks to understand the nature and structure of the investee fund, the parties involved, how information flows between them and the valuation judgements needed. Relevant matters include:

- the legal and investment structure, including relevant investment layers, special-purpose vehicles and overseas entities;
- whether the investee fund is internally or externally managed, the parties involved in managing, administering, valuing and safeguarding its assets, and any material outsourcing arrangements;
- whether those parties are related to the investor fund and how conflicts of interest are identified, monitored and managed;
- the regulatory standing, competence, capability, objectivity and relevant experience of the parties that prepare, review and approve valuations;

[9] NZ IFRS 13, paragraph 9

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- the availability of information from the investee fund and relevant service providers, including any limits on access to audited financial statements, controls reports and other information; and
- the nature of the underlying investments and the applicable financial reporting requirements. For more complex instruments, the auditor may also seek to understand the valuation policies, methods and techniques used and whether these are consistent with relevant industry guidance such as the International Private Equity and Venture Capital Valuation Guidelines.

This understanding helps the auditor identify and assess factors that may affect the valuation of the investor fund's interest and determine the audit evidence that may be available. The nature of and valuation complexity, subjectivity or estimation uncertainty of the underlying investments inform the assessment of risk (refer to step 2 below), while the structure of the investment and the arrangements between the parties may affect the availability, timing and reliability of information that could be used as audit evidence (refer to step 3 below). Together, these considerations inform the nature and extent of further audit procedures the auditor will plan to perform.

The auditor may document the parties responsible for preparing, reviewing and approving valuations, the information considered in evaluating their competence, capability, objectivity, relevant experience, reputation and regulatory standing, and how that evaluation affected the assessed risks and planned audit response. Reputation is considered together with other relevant information and does not, on its own, provide audit evidence about the reported value.

Understand how management obtains comfort over the value of investments in investee funds

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.

Management's process will differ depending on whether the investee fund is internally or externally managed.

Where the investee fund is externally managed, the auditor's understanding may include management's:

- initial due diligence performed before investing;
- oversight arrangements over valuation decisions, including valuation committees, review processes and the use of external valuation specialists;
- review of information received from investee funds and service providers and governance of the investee fund;
- ongoing assessment of the manager's valuation oversight, methodologies, information sources and valuation frequency;
- processes for identifying conflicts of interests, significant changes and valuation or unit pricing errors; and
- escalation and challenge of unusual outcomes.

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

Step 2: Identify and assess the risks of material misstatement relating to valuation

The auditor considers the inherent risk factors that affect the likelihood and potential magnitude of a material misstatement.

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

Assess the valuation complexity, subjectivity and estimation uncertainty involved

The auditor considers the extent to which the fair value is affected by complexity, subjectivity or estimation uncertainty. This assessment is made at the unit of account level (i.e., the investor fund's interest in the investee fund).

Complexity

Complexity may arise where determining the value involves, for example:

- complex contractual terms;
- multiple valuation components or data sources; or
- a complex valuation methodology or technique.

Subjectivity

Subjectivity may arise where significant judgement is required, for example where:

- underlying valuations involve significant judgement;
- there is reliance on subjective assumptions;
- valuations depend on significant unobservable inputs; or
- restrictions or other characteristics of the investment require significant judgement.

Estimation uncertainty

Estimation uncertainty may arise where, for example:

- there are a range of reasonably possible measurement outcomes;
- valuations are infrequent;
- observable transactions are limited; or
- significant changes have occurred since the underlying valuation date.

Assess risk of management bias

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

Related party relationships may increase the risk of management bias where valuation decisions, pricing processes or investment decisions are performed by parties that have economic interests in the reported valuation outcome. In these circumstances, the auditor may consider the effectiveness of oversight arrangements, conflict management processes and independent review mechanisms.

Other factors include:

- fees based on Net Asset Value (**NAV**)
- performance fees
- remuneration linked to investment performance
- pressures to meet return targets
- selective use of information
- repeated valuation outcomes that consistently favour one direction
- history of valuation or unit-pricing errors

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Assess indicators of illiquidity, stale pricing and of significant market movements

Illiquidity concerns the ability to transact or redeem at the reported value. Illiquidity may arise for funds with restricted redemption arrangements. If applicable, the auditor seeks to understand whether the restriction affects the fair value measurement or only the ability to realise the investment.

Thinly traded or inactive market instruments may result in stale pricing. NZ IFRS 13 addresses measurement where the volume or level of market activity has significantly decreased.

Stale pricing is more likely where valuations are infrequent, market activity is limited, reporting dates do not align or significant events occur after the valuation date. Illiquidity is relevant where restrictions or market conditions affect the ability to transact or redeem at the reported value. These factors may arise separately or together and do not, by themselves, indicate that the reported value is misstated. Where relevant, the auditor considers whether the fair value remains relevant at the investor fund's reporting date.

Possible factors that indicate that the redemption price may not represent fair value include:

- significant time elapsed since the underlying valuation date of the investee fund
- infrequent valuation cycles
- significant market movements after the valuation date of the investee fund
- side-pocket arrangements
- absence of recent transactions
- changes in economic conditions
- changes in sector-specific conditions

Assess other indicators that increase the susceptibility of the NAV or unit price to material misstatement

The auditor considers whether the processes used to determine the investee fund's net asset value or unit price create risks of material misstatement. Relevant factors that relate to errors in information may include:

- application of an incorrect tax treatment
- foreign exchange or market cut-off differences
- incorrect treatment of distributions or corporate actions
- data or mapping errors between systems
- differences between jurisdictions or service providers in pricing conventions
- the person or service provider performing the calculation misunderstanding the instrument or methodology concerned

Consider the relevance and reliability of controls reports

The auditor considers whether controls reports are available and how they may contribute to the audit. If available, the auditor considers the report's purpose, scope, period and any bridging information, and whether it is relevant to the identified risks.

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

A controls report's scope may not cover controls relevant to valuation or unit pricing, and their reporting periods may not align with the investor fund's reporting date. The auditor considers how

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these limitations affect the intended use of the report and whether bridging information or further audit procedures are necessary.

Step 3: Respond to risk considering available information

The auditor develops a response to the assessed risks and considers the information available in the circumstances. The auditor's response is shaped by two inputs, namely the assessed risk, which informs how persuasive the evidence needs to be, and the information available, which informs what evidence can be obtained. The information sources and audit procedures described below are examples. The auditor is not expected to obtain every source or perform every procedure described. A small number of relevant and reliable sources may be persuasive in some circumstances. Additional information and procedures may be necessary in others.

Confirmation of the holding and reported value at investor fund's reporting date

The auditor ordinarily obtains confirmation of the investor fund's holding and the net asset value, unit price or redemption value attributed to that holding from the investee fund or its service providers. The confirmation provides evidence about the holding and the value reported by the investee fund. However, because the reported value is determined by the investee fund or its service providers, the confirmation would not ordinarily be sufficient appropriate audit evidence on its own.

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 the availability of controls reports and the availability of audited financial statements as described in the sections that follow.

Controls reports

A relevant controls report may contribute to the audit in different ways, depending on its scope and how the auditor intends to use it. It may support the auditor's risk assessment, provide evidence about the design, implementation and operating effectiveness of controls relevant to the valuation assertion, or assist in evaluating the reliability of information produced by the investee fund or its service providers.

The relevance of a controls report depends on whether its scope and coverage address the risks identified and support the auditor's intended use of the report.

To evaluate whether the controls report is suitable for the intended purpose, the auditor may consider matters such as:

- the valuation, unit-pricing and other processes and controls covered;
- the period covered by the report and the availability of any bridging information;
- the service auditor's competence and independence; and
- the service auditor's opinion and any identified deviations.

The auditor documents how the controls report was used, the evidence obtained from it, any limitations due to its scope, coverage, or significant control deviations identified, and how those matters affected the nature and extent of other audit procedures.

Where audited financial statements are available

Information available from the audited financial statements

Audited financial statements may provide information about:

- how the investee fund measured and disclosed its investments;
- the applicable financial reporting framework and valuation policies;
- significant assumptions and judgements;
- fair value hierarchy disclosures;

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- whether the auditor's report is modified; and
- whether any key audit matters relate to valuation.

The auditor considers whether the audited financial information is relevant to the value confirmed by the investee fund and whether it provides sufficient corroborative evidence in the circumstances.

Depending on how that information is used, relevant considerations may include:

- the investee fund auditor's competence, capabilities and objectivity;
- the ethical, professional and regulatory requirements applicable to the investee fund auditor; and
- whether the auditor's report contains a modified opinion or other matter relevant to the valuation.

Where reporting dates align

Where the investee fund and investor fund have the same reporting date and the audited financial statements are available, the auditor may compare the confirmed net asset value, unit price or redemption value with the corresponding value derived from the investee fund's audited financial information.

Where the confirmed value is consistent with the audited financial information and no contradictory information is identified, the auditor may conclude that sufficient appropriate audit evidence has been obtained to support the valuation assertion.

Where reporting dates do not align

Where the investee fund's audited financial statements predates the investor fund's reporting date, the confirmed net asset value, unit price or redemption value is unlikely to be consistent with the value derived from the investee fund's audited financial information.

Back-testing

The auditor may agree a net asset value, unit price or redemption value reported at the investee fund's balance date with the corresponding value derived from the investee fund's audited financial information.

This comparison may provide evidence about the historical reliability of the investee fund's valuation process and whether there is evidence of systematic over- or under-valuation. The relevance of back-testing depends on the assessed risks and the nature of the investment.

Additional back testing where risk is assessed at the higher end of the spectrum

Where the risk of material misstatement of the valuation assertion 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.

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

Comparative information from relevant benchmarks

Depending on the circumstances, the auditor may consider movements in NAV between the last audited financial statements and the investor fund's reporting date against relevant benchmarks, market indices or other available information.

Where the investee fund is a passive index-tracking fund, comparative information from relevant benchmarks may assist the auditor in evaluating whether changes in value appear consistent with available market information. For other types of investee funds, where returns are not expected to

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align with the benchmark, the auditor applies professional judgement in determining the suitability of benchmarking procedures. Where a fund is primarily invested in observable instruments with daily redemption features and the individual returns vary significantly from benchmark performance, the information may still contribute to the body of audit evidence if those returns are consistent with the returns reported to investors.

Information from management's monitoring activities

Information produced through management's monitoring activities may also contribute to the body of audit evidence.

Depending on the nature, size and structure of the investment, examples may include minutes and papers from valuation or investment committee meetings, management's reviews of valuation reports and significant movements, records of issues or exceptions identified, evidence of challenge applied to the investee fund manager, and documentation of how matters were resolved or followed up. The information may demonstrate controls are operating as described and whether management identified and responded appropriately to matters relevant to the reported value.

Additional information relevant to the auditor's determination of whether the redemption price represents fair value

Depending on the circumstances, the auditor may seek additional confirmation and information from the investee fund or its investment manager, such as:

- whether the confirmed value is executable;
- recent transactions supporting the confirmed value;
- the nature and effect of any redemption restrictions;
- whether the unit price includes any outstanding distributions;
- any unit-pricing or valuation errors during the year or after year-end, including their nature, amount, timing and correction; and
- outstanding commitments relevant to the investor fund's financial statements disclosures.

The nature and extent of additional information needed depend on factors such as:

- the length of the intervening period, where relevant;
- the nature and volatility of the underlying investments;
- significant transactions or valuation events during the intervening period;
- significant market or economic developments; and
- the assessed risk of material misstatement of the valuation assertion.

The purpose of obtaining additional information is to assess whether the net asset value, unit price or redemption value represents fair value at the investor fund's reporting date.

The audited financial information, the confirmation obtained and other information relevant to the intervening period between the investee fund's reporting date and the investor fund's reporting date, may assist the auditor in evaluating whether the confirmed NAV or redemption price represents fair value at the investor fund's reporting date.

The auditor evaluates whether matters such as executability, redemption restrictions, unit-pricing errors or subsequent transactions affect the relevance of the confirmed value or indicate that further information, audit procedures or an adjustment to the reported value may be necessary.

Once the information obtained is sufficiently persuasive, responds to the reporting-date difference and does not identify contradictory information, the auditor may conclude that further information or audit procedures are unnecessary.

Information about redemption price executability

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The auditor may compare the net asset value, unit price or redemption value at the investor fund's reporting date with transactions, other realisation events and observed movements in value. Where available, evidence that units were transacted at that price at that date provides stronger support that the net asset value, unit price or redemption value is executable.

The relevance of the executability evidence depends on factors, such as, the nature of the investment, how closely the transactions tested reflect current conditions at the investor fund's reporting date.

Information about redemption restrictions

Where the confirmed redemption price is not currently executable, for example because of redemption gates, lock-up periods, side-pocket arrangements[10] or fund suspension, the auditor considers how the restriction affects the relevance of the confirmed price as evidence of fair value.

Management evaluates the restriction under the applicable financial reporting framework, including whether the restriction is a characteristic of the asset and how market participants would consider it when pricing the investment at the measurement date.

The auditor evaluates management's assessment, including:

- the nature and duration of the restriction;
- available transaction or market evidence;
- the liquidity and transferability of the investment;
- whether further corroborative information is needed; and
- whether the resulting measurement and disclosures comply with the applicable financial reporting framework.

Depending on the circumstances, the restriction may indicate that the confirmed redemption price requires further corroboration or that an adjustment to the reported value should be considered. A restriction does not, by itself, determine that the reported value is misstated.

Information about 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; and
- the error, if uncorrected, could result in a material misstatement of the investor fund's financial statements.

Where indicators of illiquidity, stale pricing, and of significant market movements post-valuation date are identified

Where the auditor identifies indicators of illiquidity or stale pricing, the auditor considers how those indicators affect the confirmed value and whether additional information is needed to evaluate fair value at the reporting date.

The effect of stale pricing and illiquidity depends on the investment's characteristics and the information available at the investor fund's reporting date. The following table links common investment types and circumstances to the risks that may require additional audit attention.

[10] Redemption gate: A limit on how much money investors can withdraw at one time.
Lock-up period: A required minimum time investors must stay invested before they can withdraw.
Side-pocket arrangement: A way for a fund to separate illiquid or hard-to-value assets so only certain investors bear their risks.

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Investment type or circumstance	Principal risk	Why the risk arises
Private equity and venture capital	Stale pricing; estimation uncertainty; illiquidity	Valuations may be prepared quarterly, six-monthly or annually using significant unobservable inputs, with few recent transactions or realisation events.
Private debt and direct lending	Stale pricing; credit deterioration; illiquidity	Instruments may not trade in an active market, and changes in borrower performance, credit risk or market yields may not be reflected promptly.
Unlisted property, infrastructure and natural resources	Stale pricing; estimation uncertainty; illiquidity	Valuations are often periodic and depend on forecasts, discount rates, capitalisation rates and other judgemental assumptions.
Limited partnerships and private asset funds	Stale NAV; reporting-date differences; limited transparency	Investor reporting may lag the investor fund's reporting date, and information about underlying investments may be restricted or available only through the manager.
Hedge funds and alternative investment funds with lock-ups, gates or side pockets	Illiquidity; non-executable redemption price	Redemption restrictions may limit the ability to realise the investment at the reported value or within the expected period.
Otherwise liquid investments where reporting dates do not align	Stale pricing; intervening-event risk	Significant market, economic or investee-specific changes may occur between the valuation date and the investor fund's reporting date.

Depending on the circumstances, the auditor may obtain information about the period since the underlying valuation date, significant market or sector developments, subsequent transactions involving the investee fund or its underlying investments, and the nature and effect of any redemption restrictions.

Where audited financial statements are unavailable

In limited circumstances, an investee fund may not prepare financial statements, for example where the investment is held through a private vehicle or structure that is not required by law or its governing arrangements to do so.

Where audited financial statements are unavailable, management's process may involve obtaining and evaluating alternative information from the investee fund or its service providers, understanding the nature of underlying investments and the investee fund's valuation process to the extent relevant to assessing the reported value, monitoring significant valuation movements and events, challenging unusual outcomes, and documenting why the reported NAV, unit price or redemption value remains an appropriate measure of fair value at the investor fund's reporting date.

Where audited financial statements are unavailable, the auditor considers what alternative information may corroborate the confirmed net asset value, unit price or redemption value.

The nature and extent of information requested depend on:

- the assessed risks;
- the relevance and reliability of the information available;

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- the nature of the underlying investments;
- the date to which the available information relates; and
- the circumstances of the investment.

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 of the valuation of material underlying investments and other material account balances.

Where assessed risk is at the higher end of the spectrum

Where risk is assessed at the higher end of the spectrum because the valuation is subject to greater estimation uncertainty or the available information is less current or less reliable, the auditor may need more persuasive evidence.

Depending on the circumstances, this may include information about material underlying investments, valuation reports, external valuations, valuation committee papers, significant assumptions and inputs, subsequent transactions or the involvement of an auditor’s expert.

Current management accounts and internal reporting information

Information from management’s monitoring activities, 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 which assets are externally valued, the date of the most recent valuation and significant valuation changes, including whether there were impairments, write-downs or significant fair value adjustments may assist the auditor in understanding how material valuations have changed and whether those changes are consistent with other available information.

Detailed information supporting material valuations

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

- 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 and the applicable financial reporting requirements.

Where investments involve related parties, the auditor also considers whether disclosures appropriately explain the nature of the related party relationship, any material transactions and balances, and information relevant to understanding how the investment has been valued.

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

Evaluate the body of audit evidence

The persuasiveness of audit evidence varies. In the circumstances addressed by this guide, the auditor ordinarily draws on a combination of information sources and audit procedures to support the valuation assertion.

The auditor evaluates the contribution of each piece of evidence in the context of 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. The auditor prepares documentation sufficient to enable an experienced auditor, having no previous connection with the audit, to understand the nature, timing and extent of the audit procedures performed, the results of those procedures and the audit evidence obtained, and the significant professional judgements made in evaluating whether sufficient appropriate audit evidence supports the valuation assertion.

Consider whether the audit evidence is sufficient and appropriate

The auditor considers whether the information available, 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 and access to such information may be restricted.

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 of the investor fund's interest in the investee funds, not at investee fund's underlying investments, 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:

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- 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.

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 examples for specific circumstances

These examples are illustrative only and do not represent all circumstances. They demonstrate how the auditor:

- starts by understanding the investment structure, valuation process, available information and management's monitoring activities;
- identifies and assesses risks of material misstatement;
- develops a response based on the information available and the risks identified; and
- evaluates whether sufficient appropriate audit evidence has been obtained to support the valuation of the investment.

Purpose of the worked examples

The examples illustrate that the nature and extent of audit work depend on the circumstances. The risks identified and the availability and reliability of information affect the auditor's response.

In some circumstances, the auditor may need to obtain and evaluate evidence from multiple sources to build a sufficiently persuasive body of audit evidence. In other circumstances, a small number of highly persuasive sources of evidence may provide a sufficient basis for the auditor's conclusion. The quantity of evidence depends on its quality and persuasiveness. Professional judgement is required when evaluating whether the body of audit evidence obtained is sufficient and appropriate in the circumstances. The auditor documents the audit procedures performed, the evidence obtained and the judgements made in concluding whether sufficient, appropriate audit evidence has been obtained, including how the evidence responds to the assessed risk at the assertion level.

Example 1: Audited financial statements of the investee fund are available, and the reporting date aligns with that of the investor fund

Fact pattern (from the auditor’s understanding)

An investor fund invests in a wholesale fund managed by the same fund manager.

The wholesale fund invests primarily in listed equities, fixed income securities and other investments for which observable market information is readily available.

The investment is material to the investor fund's financial statements.

The auditor identifies that the investor fund relies on the redemption value determined for the wholesale fund.

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Identify and assess risks of material misstatement relating to valuation

The auditor assesses inherent risk relating to the valuation assertion at the lower end of the spectrum because the underlying investments are predominantly based on observable market information, so estimation uncertainty is low.

Respond to risk considering available information

The auditor develops a response to the lower assessed risk by planning to obtain a confirmation of the redemption value from the wholesale fund and corroborate that confirmation with the wholesale fund's audited financial statements. The nature and extent of planned audit work is informed by the fact that:

- the funds' reporting dates align; and
- audited financial statements of the investee fund are available. The audit opinion is unmodified.

Confirmed redemption value

The auditor obtains a confirmation of the units held and the redemption price from the wholesale fund administrator. The confirmation provides evidence regarding the investment held by the investor fund and the redemption price attributed to those units. However, because the confirmed redemption price originates from the wholesale fund or its service providers, the confirmation would not ordinarily provide sufficient appropriate audit evidence about fair value on its own.

The auditor therefore uses the available audited financial statements to corroborate the value.

Audited financial statements

The audited financial statements of the wholesale fund provide information about:

- the composition of the investment portfolio;
- valuation policies applied;
- fair value disclosures; and
- the auditor's opinion.

The auditor recalculates the unit price using information contained in the audited financial statements of the wholesale fund by dividing the audited net assets by the units on issue. The resulting audited unit price is compared to the redemption price confirmed by the administrator and the unit price used by the investor fund. In addition, the auditor may compare the redemption price to recent transaction prices.

The auditor finds no material differences and no contradictory information.

Evaluate the persuasiveness of the body of audit evidence and conclude

The auditor evaluates and concludes that the consistency between the confirmed redemption value and the audited financial information provides persuasive audit evidence supporting the value recognised by the investor fund.

The auditor identifies no contradictory information and concludes that the available evidence responds appropriately to the risks identified.

The auditor documents how the confirmation and audited financial information were evaluated together, the significant professional judgements made, and the basis for concluding that the evidence obtained is sufficient and appropriate to respond to the assessed risk of material misstatement of the valuation assertion.

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Example 2: Reporting dates do not align, and the underlying investments are private assets

What this example illustrates

This example illustrates how an auditor might respond when:

- a material investment is exposed to significant valuation uncertainty because the underlying investments are private assets valued using significant judgement and unobservable inputs; and
- the most recent audited financial information for the investee fund is six months old.

It illustrates how the auditor may consider different sources of information together when determining whether sufficient appropriate audit evidence has been obtained. It does not illustrate all procedures that may be relevant in these circumstances, and the nature and extent of audit procedures will depend on the facts and circumstances of the engagement.

Fact pattern (from the auditor's understanding)

An investor fund invests in an externally managed New Zealand wholesale fund. The investment 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 wholesale fund is managed by an unrelated investment manager and invests primarily in private equity and private debt investments through limited partnership structures. The wholesale fund's investment manager determines the fair value of those underlying investments using valuation methodologies that involve significant judgement and unobservable inputs.

Management of the investor fund remains responsible for determining whether the value attributed to its interest in the wholesale fund represents fair value.

Given the nature and significance of the investment, management actively monitors it.

The auditor's understanding of the investment, the risks associated with it and the information likely to be available is informed by information that management holds and uses in monitoring the investment. In this scenario, that information includes:

- product disclosure information;
- investor reporting provided by the wholesale fund manager;
- information about investment performance, significant valuation movements and significant events affecting underlying investments; and
- information obtained through management's ongoing monitoring of, and discussions with the wholesale fund manager, including discussions about valuation matters.

The nature of management's monitoring reflects the significance and nature of the investment. It also informs the auditor's understanding of what information may be available to assist in responding to the assessed valuation risk.

Identify and assess risks of material misstatement relating to valuation

The nature of the underlying private investments, including the significant judgement and unobservable inputs involved in their valuation, results in significant estimation uncertainty. The auditor therefore assesses the risk of material misstatement relating to valuation at the higher end of the spectrum of inherent risk.

Respond to risk considering available information

The auditor considers how to obtain sufficiently persuasive audit evidence to respond to the higher assessed risk.

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Two features are particularly relevant to that judgement:

- the wholesale fund's most recent audited financial statements relate to a date six months before the investor fund's reporting date. Those financial statements may provide relevant evidence about the historical valuation process and the values determined at 30 September 20X6, but do not establish the fair value of the investment at 31 March 20X7.
- the underlying investments are managed and valued outside the investor fund. The auditor therefore considers what information is available from the wholesale fund, management's monitoring activities and other sources, and the relevance and reliability of that information.

Establishing a starting point

The auditor obtains confirmation from the wholesale fund administrator of the investor fund's holding and redemption value at 31 March 20X7.

The confirmation provides evidence about the holding the number of units held and the reported redemption value.

However, because the confirmed value originates from the wholesale fund or its service providers, the auditor determines that confirmation alone does not provide sufficient appropriate audit evidence about fair value.

The auditor considers what other information is available that could corroborate or challenge the reported value.

Evaluating the earlier audited information

The auditor considers the audited financial statements of the wholesale fund for the year ended 30 September 20X6. They provide information about the wholesale fund's valuation methodologies, significant assumptions and judgements, fair value disclosures and the independent auditor's unmodified opinion.

The auditor recalculates the unit price at 30 September 20X6 using the audited net assets and units on issue and compares this with the unit price reported by the wholesale fund at that date.

This evidence assists the auditor in evaluating the historical valuation process and the reliability of historical information. It may not, however, resolve the six-month reporting date difference or establish fair value at 31 Match 20X7.

Considering developments during the intervening period

The auditor considers what evidence is available about developments between 30 September 20X6 and 31 March 20x7.

The auditor's consideration includes subsequent transaction prices, asset disposals, capital returns or other realisation events when evaluating whether historical valuations have subsequently been supported by actual outcomes. The auditor identifies no material differences or pattern of bias.

Management's monitoring of this significant investment provides another source of information. The auditor evaluates relevant information available to management about investment performance, significant valuation movements, significant events affecting underlying investments, the oversight and review processes applied to valuations, and discussions with the wholesale fund manager about performance and valuations.

The auditor considers whether this information identifies developments during the six-month period that could reduce the relevance of the September audited information or contradict the reported value at 31 March 20X7.

Obtaining evidence about the reporting-date value

The auditor determines that the earlier audited financial statements and historical information do not, on their own, address whether the reported redemption value is representative of fair value at the investor fund's reporting date.

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The auditor therefore seeks information more directly relevant to the 31 March 20X7 valuation. Depending on the circumstances, this may include information about recent transactions supporting the redemption value, significant changes in valuation methodologies or assumptions, redemption restrictions, and significant valuation or unit-pricing errors.

In this scenario, the information obtained indicates that the underlying investments are measured at fair value, the redemption value is executable, and there have been no significant valuation or unit-pricing errors. Recent transaction information is consistent with the reported value.

The information obtained also identifies no significant changes in valuation methodologies or assumptions, market conditions or significant underlying investments that contradict the reported value.

Considering controls reports

The auditor also considers controls reports covering relevant service organisations involved in the administration, custody or valuation process, together with available bridging information for the intervening period.

The auditor evaluates which processes and controls those reports cover and the relevance of that information to the assessed valuation risk.

In this scenario, the controls report provide evidence about the reliability of information produced through asset management and investment administration processes during the period covered by the reports.

However, the controls reports do not cover control activities related to the accuracy and completeness of valuation and unit-pricing calculations. The auditor therefore considers the controls reports as part of the body of evidence.

Evaluate the persuasiveness of the body of audit evidence and conclude

The auditor evaluates the body of audit evidence as a whole, including:

- whether the evidence obtained responds to the risks identified;
- whether different sources of information corroborate one another;
- whether contradictory information has been identified and appropriately addressed;
- whether the information available remains relevant at the investor fund's reporting date; and
- whether any limitations in available information prevent the auditor from obtaining sufficient appropriate audit evidence.

No single source of information provides sufficient appropriate audit evidence on its own in this scenario. The auditor therefore evaluates how the evidence obtained in this example, being the confirmation of the holding and redemption value, the earlier audited financial statements, information from management's monitoring activities, information about valuation oversight and methodology, information about developments between 30 September 20X6 and 31 March 20X7 and the controls reports corroborate one another and respond to the assessed risks.

In this scenario, the sources of information are consistent, and the auditor identifies no contradictory evidence or significant intervening event that calls the reported value into question.

After evaluating the relevance and reliability of the information obtained, how the information and audit procedures performed contribute to the body of audit evidence, and whether the evidence responds to the risks identified, the auditor concludes that the cumulative audit evidence is sufficient and appropriate to support the valuation of the investment.

The auditor documents how the different sources of information and audit procedures were evaluated together, the significant professional judgements made, how contradictory information and limitations were addressed, and the basis for concluding that the resulting body of audit

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evidence is sufficient and appropriate to respond to the assessed risk of material misstatement of the valuation assertion.

This conclusion reflects the specific facts and circumstances of this example. A different combination of audit evidence may be necessary in other circumstances.

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Appendix: Summary of the four-step framework

Step 1
Understand

- The unit of account is the investor fund's interest in each investee fund.
- Start with management's valuation process, oversight, monitoring and supporting evidence. Management are responsible for supporting the fair value reported.
- Understand the fund structure, related parties, valuation characteristics and information available, including access and timing limitations.

Step 2
Identify and assess risk

- Assess complexity, subjectivity, estimation uncertainty and management bias.
- Assess indicators of illiquidity, stale pricing, significant market movements and other indicators that may affect the susceptibility of the NAV or unit price to material misstatement.
- If available, evaluate controls reports for purpose, scope, period and relevance to risks.

Step 3
Respond to risk considering available information

Use the sources relevant to the assessed risk and circumstances. Not every source is needed in every case.

Confirmation of the holding and reported value

- Confirm holding and NAV, unit price or redemption value at investor fund's reporting date.
- This confirmation would not ordinarily be sufficient, appropriate evidence on its own.

Controls reports

Relevant controls reports may:

- assist in evaluating the reliability of information produced by the investee fund or its service providers; or
- provide evidence about the design, implementation or operating effectiveness of controls relevant to the valuation assertion.

Compare the controls report's date or period with the investor fund's reporting date. If they do not align, consider work to address the gap, depending on its length.

Audited financial statements available

- Valuation policies, assumptions and judgements
- Investment disclosures and fair value hierarchy
- Audit opinion and valuation-related key audit matters

Reporting dates align

- Compare the confirmed value with the corresponding value derived from audited information.
- Evaluate whether the combined evidence addresses the assessed risk, taking account of any contradictory information.

Reporting dates differ

- Assess whether the confirmed value represents fair value at the investor fund's reporting date.
- Tailor further work to the assessed risk, investment characteristics, and intervening period developments.
- Further work include, for example, back-testing and considering information about redemption price executability and management's monitoring activities.

No audited financial statements

Alternative information

- Corroborate the confirmed value with alternative evidence, including management's controls, oversight and internal reporting.
- Consider information about external valuations, significant changes and if specialist input is needed.
- If needed, look through to material investments and balances.

Evidence proportionate to assessed risk

Evaluate how information from different sources and audit procedures together provide evidence supporting the valuation. Higher assessed risk requires more persuasive evidence. Consider whether the evidence obtained addresses that risk and whether further evidence is needed. Limited access to information does not reduce the auditor's responsibility.

Disclosures: assess classification, valuation disclosures and related party information.

Step 4
Evaluate and conclude

- Evaluate whether the cumulative evidence is sufficient and appropriate to support the reported value.
- Consider management's support for the value and whether further information could reasonably address any significant limitations.
- Conclude and document the basis, key evidence and significant judgements. If evidence is insufficient, document the scope limitation assessment and its impact on the audit opinion.

XRB | Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

NZAuASB Board meeting summary paper

Meeting date:	3 December 2026
Subject:	**EG Au8: Audit implications of the use of service organisations for investment management services**
Date:	18 November 2026
Prepared by:	Sharon Walker
Reviewed by:	Thinus Peyper, Karen Tipper

☒ Action Required	**☐ For Information Purposes Only**

Agenda item objectives

1. The objectives of this agenda item are to:
   (a) update the Board on progress in revising EG Au 8, *Audit Implications of the Use of Service Organisations for Investment Management Services,* including the stakeholder engagement currently underway;
   (b) seek the Board's feedback on whether the redrafted control objectives are appropriately outcomes focused, clear, proportionate and appropriate for New Zealand industry; and
   (c) seek the Board's agreement on the proposed process to finalise the revised guide for consideration and approval at its February 2027 meeting.

Background

2. A joint project plan to revise EG AU 8 / GS 007 was approved by the AUASB and NZAuASB in May and June 2025, respectively. The objective of the project is to consider and address topics in the joint guide that auditors find difficult to apply. A joint Project Advisory Group (PAG), comprising experienced audit practitioners from New Zealand and Australia, has provided practical and technical input into the revision of EG Au8 and GS 007.
3. Appendix 3 of EG Au 8 sets out control objectives relevant to investment management services. The control objectives are intended to identify outcomes that may be relevant when controls at an investment management service organisation are relied on as audit evidence.
4. The objectives are not intended to prescribe the controls that a service organisation must operate or to establish additional requirements beyond the applicable standards. Not every objective will be relevant to every service organisation or controls report. Their relevance depends on the services and functions performed, the control environment and the circumstances of the engagement.

Process to date

5. The draft EG Au8 has been developed through technical review, targeted stakeholder consultation and Board consideration. In December 2025,[1] the NZAuASB received an update on progress described against the summarised issues from the approved project plan.
6. Regulators in New Zealand and Australia had an opportunity to comment on the developing draft of the guide. Their feedback was incorporated, where appropriate, into the guide.
7. In June 2026 the Board agreed that the draft of the revised guide should be shared with selected industry representatives before being brought back to the Board for approval. Staff subsequently sought targeted industry input and undertook an internal review.
8. The Board considered the resulting feedback in August 2026.[2] Overall, the feedback supported the direction of the revised guidance but identified a number of areas where further clarification or refinement was needed.

EG Au8 generally

9. Feedback on EG Au8 generally focused on ensuring that the guidance remained principles-based, proportionate and appropriately anchored in the underlying standards. Staff responded by removing or refining drafting that could be interpreted as prescribing audit methodology or extending the requirements of the standards. This included revising the guidance on gap periods, replacing prescribed sample sizes with an illustrative reporting template, and removing materiality benchmarks and percentages. The changes made in response to this feedback were substantially reflected in the draft considered by the Board in August 2026.

Control objectives

10. Feedback on the revised control objectives raised more substantive issues than the feedback on EG Au8 generally. While stakeholders supported updating the control objectives, concerns centred on the increased number and specificity of the control objectives, whether these could be interpreted as minimum requirements, and whether the objectives appropriately reflected New Zealand industry structures and the responsibilities of the different parties involved. The Board considered that further work and industry engagement were needed before the revised control objectives could be finalised.
11. In response to the concerns raised, staff reviewed each control objective for its relevance to financial reporting and simplified or consolidated objectives where appropriate. The table in the Appendix summarises the concerns and how staff responded.
12. The redrafted control objectives are presented at agenda item 7.2. These focus more clearly on the intended control outcome, remove unnecessary detail and examples, and use conditional language where relevance depends on the functions performed. Control objectives on unit pricing have been added. Control objectives on Valuation Governance and Methodology have been moved to a separate section and apply to the function performing the control.
13. The definitions to the control objectives will be updated once the control objectives have been agreed. Due to the extent of change, the control objectives have not been shown in mark-up.

Board consideration in October 2026

Application of EG Au 8

14. At its October 2026 meeting, the Board supported clarifying that EG Au 8 is relevant when a user auditor uses a controls report to support the valuation of an investment in a managed

[1] Refer December 2025 NZAuASB meeting, agenda item 7.1, Appendix 1
[2] Refer August 2026 NZAuASB meeting, agenda item 7.1

fund for which pricing information is not publicly available. The relevant extracts from the standards have been retained so that the guide remains anchored in ISA (NZ) 402 and ISAE (NZ) 3402.

Description and drafting of the control objectives

15. The Board also considered whether the control objectives should be described as “minimum control objectives” or “example control objectives”.

16. The Board preferred an outcomes-focused approach and considered the relevance of the objectives to financial reporting and industry practice more important than whether they were described as “minimum” or “example” control objectives. For the purposes of agenda item 7.2, the existing term “minimum control objectives” has been retained as a working description.

Current targeted engagement

17. In November 2026, staff began further targeted engagement on the revised material.

18. The revised draft of EG Au8, including the control objectives, was shared with the joint NZAuASB/AUASB project advisory group, selected New Zealand practitioners and the FMA. These stakeholders were asked to consider the audit and assurance guidance as a whole, including whether the revisions appropriately responded to the matters previously raised.

19. The redrafted control objectives were shared separately with targeted industry participants. Those participants were asked to consider whether the control objectives appropriately reflect relevant industry functions, responsibilities and operating practices.

20. The purpose of this engagement is not to reopen the earlier consultation. It is to test the revisions made in response to the earlier feedback and Board direction, and to identify any further matters that may need to be considered before the complete guide is presented for approval.

Feedback from the current targeted engagement

21. The following matters have been raised in feedback received to date. They are presented for the Board’s information and to assist its consideration of the redrafted control objectives.

22. Feedback is still being received. Staff have not completed their analysis and have not determined how any matters raised through this engagement should be addressed. Staff will consider these matters together with any further stakeholder feedback and the Board’s feedback from this meeting.

23. Stakeholders were broadly supportive of the revisions to EG Au 8. They considered that the revised guide is clearer, more proportionate and better aligned with the underlying standards, and supported the less prescriptive and more outcomes-focused approach. The feedback identified further refinements to EG Au 8 itself and to the control objectives.

Feedback related to EG Au 8 generally

Topic	Feedback received to date
Status and intended weight of the control objectives	The guide could explain more clearly what is meant by “minimum control objectives”, the weight practitioners should attach to them and the basis for describing them as minimum objectives, given that explanatory guides are non-authoritative.
Engagements to report on financial information and their use as audit evidence	The guide could distinguish more clearly between the purpose and use of ISA (NZ) 805 and ISAE (NZ) 3402 reports. It could also explain more clearly how a report prepared under ISA (NZ) 805 may be used as audit evidence by a user auditor,

Topic	Feedback received to date
	including the application of ISA (NZ) 600, adapted as necessary.
Interaction between ISAE (NZ) 3402 and SAE 3150	Further clarification may be useful about the respective application of ISAE (NZ) 3402 and SAE 3150 where regulatory assurance requirements overlap with activities performed by service organisations. Feedback has also identified practical difficulties arising from differences in terminology and illustrative engagement letters and reports.
Usefulness of controls reports	The guide could provide further support to user auditors in assessing whether a controls report contains sufficient information about the controls, testing performed and results. Feedback has also raised access to relevant information about subservice organisations.
Periods not covered by a controls report	A stakeholder has reiterated that the guide should recognise the additional considerations that may arise as the period between the controls report and the user entity's reporting date increases. The stakeholder noted that a bridging letter may provide relevant information but is not necessarily sufficient by itself.

24. These matters are separate from the feedback considered by the Board in August 2026. In particular, the current comment about periods not covered by a controls report does not mean that staff have reversed the response to the earlier feedback or intend to reintroduce prescribed time periods. Staff will assess whether the revised guide already deals adequately with the underlying concern or whether further clarification would be useful.

Feedback related to control objectives

Topic	Feedback received to date
Useful and proportionate control objectives	Stakeholders have supported the less prescriptive and more outcomes-focused approach. Comments received to date suggest that some objectives may be capable of further consolidation where they are likely to be addressed by the same controls.
Location and scope of individual objectives	Comments have been received about whether individual objectives are sufficiently clear in scope and sit within the most appropriate section.
Boundaries between related activities	Feedback has identified a need to consider the boundaries between net asset value calculation, unit pricing, valuation, investment administration and IT, together with the cross-references between the relevant sections.
Use of "complete and accurate"	Stakeholders have questioned the use of "completely and accurately" in the Valuation Governance and Methodology objectives. The concern is that this wording may imply a uniquely correct result for a judgemental valuation or the elimination of immaterial differences, rather than recognising materiality and the judgement inherent in valuation.
Publication of unit prices	Feedback suggests that the unit pricing objectives should consider controls over the publication of unit prices, including

Topic	Feedback received to date
	reconciliation between the calculated price and the price made available to investors.

25. Staff have not determined whether or how the control objectives should be amended in response to these comments. The Board's feedback on the redrafted objectives will form part of that assessment.

26. Staff will provide the Board with a verbal update if further significant feedback is received.

Next steps

27. Following completion of the current targeted engagement, staff will consider the feedback received together with the Board's feedback and revise the draft EG Au8 accordingly, including updating the Appendix 3 definitions and control objectives as appropriate. We will continue to work with AUASB staff with a view to retaining harmonised Trans-Tasman guidance where appropriate.

28. Staff will summarise the feedback received and explain how the feedback and the Board's previous direction have been addressed. Subject to the outcome of that work, staff expect to present the complete revised EG Au 8 to the Board for consideration and approval at the February 2027 meeting.

29. Staff seek the Board's agreement with the proposed approach to finalising EG Au 8.

Recommendations

30. Staff recommend that the NZAuASB:

    (a) **NOTE** the update on the revision of EG Au 8, including the current targeted engagement;

    (b) **PROVIDE FEEDBACK** on whether the redrafted control objectives are appropriately outcomes focused, clear, proportionate and appropriate for New Zealand industry; and

    (c) **AGREE** the process for finalising the revised EG Au 8 for consideration and approval at the February 2027 meeting.

Material presented

- Board meeting summary paper
- Draft control objectives

Appendix

The table below summarises the more substantive concerns about the control objectives raised during the initial industry consultation and considered by the Board in August 2026, together with how staff have responded to those concerns.

Matter raised	How staff responded
The number and specificity of the proposed objectives could make Appendix 3 more prescriptive.	Staff reviewed each objective for its relevance to financial reporting. Objectives were removed, simplified or consolidated where appropriate.
The objectives could be interpreted as mandatory minimum requirements.	The objectives were redrafted to focus more clearly on the intended control outcome. Unnecessary procedural detail and examples were removed, and conditional wording was used where relevance depends on the functions performed.
The objectives did not always reflect New Zealand industry structures.	Staff reconsidered how the objectives were grouped and which function or party would ordinarily perform the relevant control. The redraft seeks to accommodate different operating models rather than assume that the same functions are performed by the same party in every organisation.
The boundaries between valuation, unit pricing and related activities were not sufficiently clear.	Unit pricing control objectives were added as a separate section. Valuation Governance and Methodology was moved to a separate section, with the objectives applying to the function responsible for performing the relevant control.
Some objectives contained unnecessary detail or examples.	Staff removed detailed procedural wording and examples where these were not necessary to describe the intended control outcome.
The guidance needed to recognise that the relevance of an objective depends on the services and functions performed.	Conditional language was added where appropriate. The introductory material and definitions will be updated once the content and structure of the control objectives have been settled.

Appendix 3

Minimum control objectives for each investment management service

This Appendix sets out minimum control objectives for the investment management services referred to in paragraph 12 of this Explanatory Guide and further defined below. These control objectives are not intended to be exhaustive. They are intended to assist service organisations, service auditors, user entities and user auditors in considering control objectives that may be relevant to user entities' financial reporting.

Senior management of the service organisation is responsible for ensuring that the described control objectives are sufficient and appropriate for the services provided. A service organisation may therefore consider the need to add further control objectives and supporting control activities, as appropriate. Where multiple investment management services are provided the service organisation considers whether the combined control objectives adequately address all the relevant risks and additional control objectives are added where gaps are identified.

The control objectives included are those that are likely to be relevant to user entities' controls as they relate to financial reporting and not for other purposes, such as to meet compliance requirements or to assess performance with respect to service level agreements.

Developments in financial market infrastructure, products, services, operating models or technology, may introduce additional operational processes and risks that are not specifically contemplated within these minimum control objectives. Where such developments affect how assets are recorded, transferred, valued, safeguarded, reported or verified, service organisations and service auditors may consider whether additional control objectives are necessary to appropriately address the associated risks.

Scope and application of the control objectives:

The control objectives apply according to the functions performed by the service organisation. Where responsibilities are split between service organisations, the relevant objectives apply to the function performed and, where relevant, to the transfer of information between those functions.

Where an error, breach or other matter identified under these control objectives is required to be escalated or reported to a supervisor, regulator or other oversight party, the relevant control objective includes appropriate escalation or reporting of that matter. General regulatory, supervisory or governance reporting that does not affect financial reporting is outside the scope of these control objectives.

A. Custody

Definition: [Note: the definition for each section still needs to be updated]

"Custody" is the performance of the following functions on behalf of user entities:

- Maintaining custody of assets and records of the assets held for user entities (such assets may exist in physical or electronic form).
- Collecting income and distributing such income to user entities.
- Receiving notification of corporate events and reflecting such events in the

records of user entities.

- Receiving notification of asset purchase and sale transactions relating to user entities' assets which are held by the custodian and reflecting such transactions in the records of user entities.
- Receiving payments from purchasers and disbursing proceeds to sellers for asset purchase and sale transactions.

Custody arrangements for managed investment schemes may vary. Scheme property may be held by the licensed supervisor acting as custodian, or custody functions may be performed by a separate specialist custodian or sub-custodian. The control objectives in this section should be applied to the service organisation performing the relevant custody function. Where the supervisor and custodian are separate parties, the supervisor's oversight responsibilities should not be treated as controls performed by the custodian.

Control Objectives:

Accepting clients and account setup

A.1 New client custody agreements and subsequent amendments are authorised before custody services commence or the amendments take effect

A.2 Client details, custody accounts and relevant custody service parameters are completely and accurately established in accordance with authorised custody arrangements before custody activities commence.

A.4 Authorised client instruction and settlement or payment authorities are established and maintained before custody transactions are processed.

A.5 Where client onboarding or transition occurs, opening balances are completely and accurately recorded.

Authorising and processing transactions

A.6 Custody transaction instructions are appropriately authorised or authenticated, and custody transactions are processed and recorded completely and accurately.

A.7 Custody transactions are settled completely and accurately, and settlement failures are identified and resolved within appropriate timeframes.

A.8 Corporate actions affecting assets held in custody are processed and recorded completely and accurately in accordance with authorised instructions, where applicable.

A.9 Securities lending activity is authorised and recorded completely and accurately, and related collateral is maintained and recorded in accordance with the applicable lending arrangements.

Maintaining financial and other records

A.10 Custody records are maintained in accordance with authorised custody arrangements and applicable requirements.

A.11 Client and securities reference data used in custody processing or reporting is appropriately authorised where relevant and maintained completely and accurately.

A.12 Foreign exchange rates used in custody processing and reporting are obtained from authorised sources and applied completely and accurately.

A.13 Where investment income and related entitlement processing forms part of the custody service, those amounts are collected and recorded completely and accurately in the appropriate period.

A.14 Cash and investment positions are reconciled to relevant third party and internal records, and differences are identified, investigated and resolved.

Safeguarding assets

A.15 Client assets are safeguarded from loss, misappropriation and unauthorised use, are appropriately registered or held for the client, and segregated from the custodian's own assets.

Monitoring compliance

A.16 Processing errors, exceptions and breaches that may affect financial reporting are identified, investigated and addressed, and reported or escalated to relevant parties where required.

Monitoring subservice organisations

A.17 Subservice organisations supporting custody activities are appropriately assessed and approved before the relevant services commence.

A.18 Outsourced custody activities are governed by authorised agreements that clearly define the services, responsibilities and applicable performance requirements.

A.19 The performance of subservice organisations supporting custody activities is appropriately monitored, and significant service failures, incidents or control deficiencies are identified, escalated, and addressed.

Reporting to clients

A.20 Client reporting containing cash, investment or other custody information relevant to financial reporting is prepared completely and accurately and provided within appropriate timeframes.

Information technology

See control objectives: **G.1 – G.15**

B. Asset Management

Definition:

"Asset management" is the management of investments on behalf of clients and involves the performance of the following functions:

- Initiating and executing purchase and sale transactions, either by specific direction from the client or under discretionary authority granted by the client.
- Determining whether transactions comply with investment guidelines and restrictions.
- Reconciling records of security transactions and portfolio holdings, for each

client, to statements received from the custodian.

- Reporting to the client on portfolio performance and activities.

Where the service organisation performs valuation activities, refer to Section I: Valuation governance and methodology control objectives.

Assets may be managed in accordance with specific client directions, under a discretionary mandate agreed by the client or through a unitised fund, with the investment strategy mandated in an offer document or client agreement. The objectives detailed below should be scoped depending on the applicability to the asset class under review.

Control Objectives:

Accepting clients and account setup

B.1 New client investment management agreements and subsequent amendments, including applicable investment guidelines and restrictions, are authorised before investment services commence or the amendments take effect.

B.2 Client details, accounts, applicable investment guidelines and restrictions, and relevant authorities are completely and accurately established in accordance with authorised investment management arrangements before investment activities commence and are appropriately maintained.

B.3 Where client onboarding or portfolio transition occurs, opening balances are completely and accurately recorded in accordance with authorised client instructions.

Authorising and processing transactions

B.4 Proposed investment transactions are assessed for compliance with applicable investment guidelines and restrictions before execution.

B.5 Investment transactions are authorised, executed and allocated completely and accurately in accordance with applicable instructions and requirements.

B.6 Where investment transactions are executed for multiple portfolios, the transactions are allocated completely, accurately and equitably in accordance with established allocation policies and within appropriate timeframes.

B.7 Transaction costs arising from investment transactions are completely and accurately determined or communicated, as applicable.

B.8 Investment transactions are recorded completely, accurately and within appropriate timeframes.

B.9 Where corporate actions require an investment decision or election, the decision is authorised in accordance with applicable investment guidelines and restrictions and communicated accurately within required timeframes.

B.10 Where the asset manager relies on subscription, redemption or other capital-flow information to manage the portfolio, that information is received completely and accurately and acted on within appropriate timeframes.

B.11 Portfolio rebalancing decisions are authorised and implemented in accordance with applicable investment guidelines and restrictions.

Maintaining financial and other records

B.12 Investment management records are maintained in accordance with applicable investment guidelines and restrictions.

B.13 Changes to static client data and relevant securities master data are authorised and recorded completely and accurately.

B.14 Where investment income information is maintained by the asset manager, investment income and related entitlements are completely and accurately identified and communicated within appropriate timeframes.

B.15 Cash and investment positions maintained by the asset manager are completely and accurately recorded and reconciled to relevant independent records, with differences identified, investigated and resolved.

B.16 Where the asset manager is responsible for calculating fund fees or other account expenses, those amounts are calculated completely and accurately in accordance with applicable agreements and fee arrangement.

B.17 Where the asset manager manages mortgage lending or other credit investments, borrower performance and compliance with lending terms are monitored, and significant matters relevant to recoverability or valuation are identified and communicated to the relevant valuation of financial reporting function

B.18 Where cash, investments or deposits are held with counterparties, significant counterparty credit deterioration or other matters that may affect recoverability or valuation are identified, assessed and communicated to the relevant valuation or financial reporting function.

B.19 Where direct property investments are held, significant loss events, insurance claims or changes in insurance arrangements that may affect property valuation or financial reporting are identified and communicated to the relevant valuation or financial reporting function.

B.20 Significant liquidity events or conditions that may affect asset valuation, redemption obligations, going concern considerations or financial statement disclosures are identified, assessed and communicated to the relevant financial reporting function.

B.21 Where property development projects are undertaken, significant cost, timing or other project variances that may affect the valuation or financial reporting of the property are identified, assessed and appropriately communicated.

B.22 Related party relationships, transactions and service arrangements relevant to financial reporting are identified, appropriately documented and communicated to the relevant financial reporting function.

B.23 Where derivatives are used, derivative positions and related collateral, margin and other financial obligations for which the asset manager is responsible are completely and accurately identified and communicated to the relevant custody, administration or financial reporting function.

B.24 Where the asset manager is responsible for managing borrowing or other financing arrangements, relevant financing obligations and significant changes or breaches that may affect financial reporting are completely and accurately identified and communicated to the relevant financial reporting function.

B.25 Where investments give rise to material future funding commitments or other contractual obligations, those commitments and obligations are completely and accurately identified and communicated for financial reporting purposes.

Valuation Governance and Methodology

See control objectives **I.1 – I.7**

Monitoring compliance

B.26 Compliance with applicable investment mandates, guidelines and restrictions is monitored, and breaches with potential financial reporting consequences are identified and appropriately escalated.

B.27 Investment transaction errors and breaches with financial consequences are identified, investigated, appropriately escalated and resolved on a timely basis.

Monitoring subservice organisations

B.28 Subservice organisations performing activities relevant to financial reporting are appropriately assessed and approved before the services commence.

B.29 Outsourced activities relevant to financial reporting are governed by authorised agreements that clearly define the services, responsibilities and applicable performance requirements.

B.30 Subservice organisations performing activities relevant to financial reporting are appropriately monitored and significant service failures, incidents or control deficiencies are identified, escalated, and addressed.

Reporting to clients

B.31 Client reports containing information relevant to financial reporting, including portfolio valuations, transactions, holdings and income, are prepared completely and accurately and provided within appropriate timeframes.

Information technology

See control objectives: **G.1 – G.15**

C. Property Investment Administration

Definition:

"Property investment administration" is the performance of administrative, accounting, cash management, and reporting functions in relation to property investments, where those functions form part of a user entity's information system relevant to financial reporting. These functions include:

- establishing and maintaining client and property records
- administering tenancy and lease arrangements.
- processing and recording rental income, service charges, expenses, and capital expenditure.
- managing cash flows and disbursements
- reconciling property-related balances to internal and third-party records.

- monitoring compliance with lease agreements, service level agreements, and applicable governing documents.
- overseeing outsourced property administration activities
- preparing accurate and timely reporting to clients and regulators

Control Objectives:

Accepting clients and account setup

C.1 New client property administration agreements and subsequent amendments are authorised before property administration services commence or the amendments take effect.

C.2 Client, account and property information required for property administration is completely and accurately established in relevant systems before property administration activities commence.

C.3 Where client onboarding or transition occurs, opening balances are completely and accurately recorded in accordance with authorised client instructions and relevant supporting records.

Authorising and processing transactions

C.4 New tenancy agreements and leases, and any subsequent amendments, are appropriately authorised, and relevant contractual terms are completely and accurately established and updated in the property administration records.

C.5 Rent review outcomes are appropriately authorised and completely and accurately reflected in the property administration records from the applicable effective date.

C.6 Rental income, service charges, tenant recoveries, property management fees and other contractually determined property related amounts are completely and accurately calculated in accordance with applicable agreements or arrangements.

C.7 Where property related expenditure is processed by the property administrator, the relevant supplier is appropriately authorised in accordance with applicable arrangements.

C.8 Capital expenditure processed by the property administrator is supported by appropriate authorisation and relevant documentation and is completely and accurately recorded.

Maintaining financial and other records

C.9 Changes to property master data relevant to financial reporting are appropriately authorised and recorded completely and accurately in the property administration records.

C.10 Property related income, expenses, receivables and liabilities, including rental income, service charges, tenant recoveries and property management or administration fees, together with related taxes where applicable, are completely and accurately recorded in the appropriate period.

C.11 Contractually determined property-related amounts, including service charges, tenant recoveries and property management or administration fees, are

completely and accurately recorded in the appropriate period.

C.12 Property related payments are supported by relevant documentation, appropriately authorised for payment, and processed and recorded completely and accurately in the appropriate period.

C.13 Where the property administrator is responsible for processing amounts payable to the client or another service function, those amounts are processed and recorded completely and accurately in accordance with authorised instructions.

C.14 Property related cash receipts and payments are completely and accurately recorded and allocated where applicable, and property related cash balances and movements are reconciled to relevant internal and third-party records within appropriate timeframes.

C.15 Significant variances, tenant arrears and other exceptions identified from monitoring property operating information that may affect financial reporting or valuation are investigated and appropriately resolved or communicated to the relevant financial reporting or valuation function.

C.16 Where investment property is under construction or development, development expenditure is completely and accurately recorded and appropriately classified, and significant development information relevant to valuation or financial reporting is communicated to the appropriate function.

C.17 Where the property administrator processes investment property acquisitions or disposals, authorised transaction information is obtained from appropriate sources, and the acquisition or disposal is completely and accurately recorded in the financial records within the appropriate period.

C.18 Approved property valuation information is obtained from appropriate sources and completely and accurately reflected in the financial records within appropriate reporting timeframes.

Monitoring compliance

C.19 Breaches and errors arising from property investment administration that may affect financial reporting are identified, investigated and appropriately resolved, with relevant matters are escalated or reported to appropriate parties within required timeframes.

C.20 Investment property administration activities are monitored for compliance with relevant requirements in lease agreements, client agreements and applicable governing documents that may affect financial reporting.

Monitoring subservice organisations

C.21 Subservice organisations performing property administration activities relevant to financial reporting are appropriately assessed and approved before the services commence.

C.22 Outsourced property administration activities relevant to financial reporting are governed by authorised agreements that clearly define the services, responsibilities and applicable performance requirements.

C.23 The performance of subservice organisations is monitored against agreed

service and performance requirements, and identified breaches, incidents or control deficiencies are appropriately escalated and remediated.

Reporting to clients

C.24 Client reports containing property transactions, holdings, valuations and income relevant to financial reporting are prepared completely and accurately and provided within appropriate timeframes.

Information technology

See control objectives: **G.1 – G.15**

D. Superannuation Member Administration

Definition:

"Superannuation member administration" is the performance of administrative functions relating to superannuation funds, staff benefit schemes, legacy retirement plans or similar member-based retirement arrangements, including the following functions:

- Maintaining membership data, including the addition of new members and updating existing members' data.
- Receiving contributions and transfers in from employers, members or government and allocating them to members' accounts.
- Calculation and payment of benefits to members, beneficiaries, other superannuation funds and/or other third parties where applicable (e.g. financial hardship).
- Receiving instructions from members and trustees regarding investment elections and investment switch requests, and executing these instructions.
- Processing deductions from member accounts, including insurance premiums, administration fees and contribution tax, and remittance of expenses and tax to appropriate parties.
- Liaison with insurers regarding insurance claims, receipt of insurance proceeds and payment of death, Total Permanent Disability and income protection benefits.
- Allocation of fund earnings to members' accounts, through application of crediting rate or adjustment of unit prices.
- Annual review of the fund, including roll up of members' accounts, calculation of vested or accrued benefits and annual reporting to members and trustees.

Where the service organisation maintains financial records in addition to member records, the control objectives in Section E Investment Administration will also be applicable.

Control Objectives:

Accepting clients and account setup

D.1 New client member administration agreements and subsequent amendments

are authorised before member administration services commence or the amendments take effect.

D.2 Scheme, sub-plan and participating employer accounts required for member administration are completely and accurately established in accordance with authorised client arrangements, governing documents and applicable requirements before member administration activities commence.

D.3 Member accounts, including information and elections relevant to financial processing, are completely and accurately established in accordance with authorised member instructions and applicable scheme requirements.

D.4 Where client onboarding or administration transition occurs, opening member balances are completely and accurately recorded in accordance with authorised client instructions and relevant supporting records.

Authorising and processing transactions

D.5 Contributions and transfers received are completely and accurately recorded, appropriately classified and allocated to the correct members accounts, and where applicable, investment options, within appropriate timeframes.

D.6 Unallocated or unidentified contributions are completely and accurately recorded in suspense accounts, investigated and allocated to the appropriate member accounts within appropriate timeframes.

D.7 Corrections or reversals of member transactions are appropriately authorised and processed completely and accurately in member accounts.

D.8 Member benefits, withdrawals and transfer values are determined in accordance with applicable scheme requirements, calculated and recorded completely and accurately, and related payments are appropriately authorised and processed within appropriate timeframes.

D.9 Authorised member or trustee instructions relating to investment elections and investment switches are processed completely and accurately in accordance with applicable scheme requirements.

D.10 Fees, insurance premiums, taxes and other amounts charged to member accounts are calculated completely and accurately in accordance with applicable scheme requirements and are recorded in appropriate member accounts.

D.11 Where amounts charged to member accounts are payable to third parties, those amounts are appropriately authorised and remitted completely and accurately within appropriate timeframes.

D.12 Where insured member benefits are provided, insurance claims are processed in accordance with applicable scheme and policy terms, and related claim proceeds and benefit payments are completely and accurately recorded.

Maintaining member records

D.13 Changes to member data relevant to financial processing are appropriately supported and authorised and recorded completely and accurately.

D.14 Where member balances are maintained using unit prices or crediting rates, authorised unit prices or crediting rates are completely and accurately applied to member accounts in accordance with applicable scheme requirements.

D.15 Where member benefits are determined using actuarial calculations, vested or accrued benefits are completely and accurately recorded in member records using authorised actuarial information and applicable scheme requirements.

D.16 Aggregate member account balances and related transaction totals are reconciled to relevant fund accounting or other independent records, and differences are identified, investigated and resolved.

Monitoring compliance

D.17 Contributions activity is monitored for exceptions against applicable scheme requirements, and exceptions that may affect member balances or financial information are investigated and resolved or followed up as appropriate.

D.18 Member transaction errors that may affect member balances or financial information are identified, investigated and corrected, and relevant matters are escalated or reported to appropriate parties where required.

Monitoring subservice organisations

D.19 Subservice organisations performing member administration activities relevant to financial reporting are appropriately assessed and approved before the services commence.

D.20 Outsourced member administration activities relevant to financial reporting are governed by authorised agreements that clearly define the services, responsibilities and applicable performance requirements.

D.21 Subservice organisations performing member administration activities relevant to financial reporting are appropriately monitored, and significant service failures, incidents or control deficiencies are identified, escalated and addressed.

Reporting to clients

D.22 Client reports containing member administration information relevant to financial reporting are prepared completely and accurately and provided within appropriate timeframes.

Information technology

See control objectives: **G.1 – G.15**

E: Investment Administration

Definition:

"Investment Administration" is the performance of the following functions:

- Maintaining records of securities, cash, and other portfolio assets and liabilities based on information received from the Trustee/Responsible Entity, investment manager, registrar, custodian and others (as applicable).
- Valuations of portfolio assets and liabilities, determining net asset values and reporting thereof.
- Periodic reporting of performance and investment compliance to the Trustee/Responsible Entity, investment manager, and others (as applicable).

- Managing the member equity interests in a unitised fund that as a user entity (i.e. the unit registry and unit pricing for the unitised fund itself)
- Periodic financial reporting.

While section E deals with 'investment administration', it also applies to external administration of the unit registry and unit pricing for member equity interests in a unitised scheme as a user entity. Unit pricing and crediting rate calculations are also a function performed in investment administration, for which the control objectives include the accurate calculation of daily or other periodic unit prices or crediting rates with detailed controls allied to that objective. Control objectives relevant to unit pricing, distributions and credit rate calculations have not been listed below, because it would not ordinarily be necessary to meet these objectives in obtaining assurance over the operating effectiveness of controls for investment administration services provided by a service organisation for the purpose of the audit of user entities' financial statements.

Control Objectives:

Accepting clients and account set-up

E.1 New client investment administration agreements and subsequent amendments are authorised before administration services commence or the amendments take effect.

E.2 Administration services parameters, including applicable client mandates or investment restrictions where relevant to the administration service, are completely and accurately established in accordance with authorised requirements.

E.3 Client, account and other information required for investment administration is completely and accurately established in relevant systems before administration activities commence.

E.4 Authorised signatories, settlement instructions and payment authorities relevant to investment administration are appropriately established and maintained.

E.5 Where client onboarding or administration transition occurs, opening balances are completely and accurately recorded in accordance with client instructions and relevant supporting records.

Authorising and processing transactions

E.6 Corporate actions are processed and recorded completely and accurately within appropriate timeframes, with voluntary corporate actions processed in accordance with authorised instructions.

E.7 Executed investment transactions and related cash movements are completely and accurately captured, processed and recorded in the financial records within appropriate timeframes.

Maintaining financial and other records

E.8 Investment administration records are maintained in accordance with authorised client arrangements and applicable requirements.

E.9 Changes to client and security master data relevant to investment administration, valuation or financial reporting are appropriately authorised and

recorded completely and accurately.

E.10 Investment income and related receivables, including tax reclaims where applicable, are completely and accurately recorded in the appropriate period.

E.11 Where units or shares are issued or cancelled, those transactions are completely and accurately recorded in the financial records and units or shares on issue are reconciled to relevant Registry records.

E.12 Cash and investment positions are completely and accurately recorded and reconciled to relevant independent records within appropriate timeframes, with differences identified, investigated and resolved.

E.13 Expenses are appropriately authorised and recorded completely and accurately in the appropriate period in accordance with applicable agreements or authorised instructions.

E.14 Where journal entries or other adjustments are processed as part of the investment administration service, they are appropriately authorised and recorded completely and accurately in the appropriate period.

E.15 Where foreign exchange rates are used in investment administration, rates are obtained from appropriate authorised sources and applied completely and accurately.

E.16 Where the administrator is responsible for calculating fund fees, those fees are calculated completely and accurately in accordance with applicable requirements and authorised arrangements.

E.17 Approved valuation information is obtained from appropriate sources and completely and accurately reflected in the financial records.

E.18 Where the administrator is responsible for calculating distributions, distribution amounts are calculated completely and accurately in accordance with applicable requirements and authorised arrangements.

E.19 Where authorised distribution information is provided to another function for processing, that information is communicated completely and accurately.

E.20 Where the administrator is responsible for determining net asset value, NAV is calculated completely and accurately in accordance with applicable requirements, appropriately reviewed before use or release, and communicated completely and accurately where provided to another function.

Monitoring compliance

E.21 Errors arising from investment administration that may affect financial reporting are identified, investigated and appropriately resolved, with relevant matters escalated or reported to appropriate parties where required.

Valuation governance and methodology

See control objectives **I.1 – I.7**

Monitoring subservice organisations

E.22 Subservice organisations performing investment administration activities relevant to financial reporting are appropriately assessed and approved before the services commence.

E.23 Outsourced investment administration activities relevant to financial reporting are governed by authorised agreements that clearly define the services, responsibilities and applicable performance requirements.

E.24 Subservice organisations performing investment administration activities relevant to financial reporting are appropriately monitored and significant failures, incidents or control deficiencies are identified, escalated, addressed and addressed.

Reporting to clients

E.25 Client reports containing investment administration information relevant to financial reporting are prepared completely and accurately from the underlying financial records and provided within appropriate timeframes.

Taxation

E.26 Tax treatments and methodologies applied in the investment administration service are appropriately established and maintained in accordance with applicable tax requirements and authorised arrangements.

E.27 Tax information and attributes used in tax calculations are complete and accurate, and tax amounts are calculated completely and accurately in accordance with applicable tax treatments and authorised arrangements.

E.28 Tax amounts and related accounting adjustments arising from tax calculations are completely and accurately recorded in the appropriate period in accordance with applicable tax treatments and authorised arrangements.

E.29 Where tax processing involves more than one function, tax information and calculated tax amounts transferred between functions are communicated completely and accurately.

Information technology

See control objectives: **G.1 – G.15**

F. Registry

Definition:

"Registry" is the performance of the following functions:

- Maintaining records of the name and address of each shareholder or unitholder investing in the client/issuer, the amount of shares or units in the client owned by each share/unitholder, any reference corresponding to a share/unit holder's positions, the issue date of the share/unit, and the cancellation date of the share/unit (if applicable).
- Recording the amount of shares/units purchased, redeemed, switched, transferred or reinvested by a shareholder or unit holder on the issuer's books upon receipt of a validated request.
- Recording changes to share/unit holdings as a consequence of a corporate action upon receipt of a validated instruction.
- Monitoring the issuance of shares/units in an issue to prevent the unauthorised issuance of shares/units.

- Ensuring that any issuance of shares/units will not cause the authorised number of shares/units in an issue to be exceeded and that the number of new shares/units represented corresponds to the number of cancelled shares/units.
- Performing stakeholder meeting and voting processes such as document design and print procurement, postage, other distribution of documentation and reporting.

Control Objectives:

Accepting clients and account setup

F.1 Client or issuer, fund or share-class information and processing parameters required for registry services are completely and accurately established in relevant systems in accordance with authorised arrangements before registry activities commence.

F.2 New share or unitholder accounts, including information relevant to financial processing and investor tax where applicable, are completely and accurately established in accordance with authorised instructions and applicable requirements.

F.3 New client registry agreements and subsequent amendments are authorised before registry services commence or the amendments take effect.

F.4 Where client onboarding or registry transition occurs, opening investor holdings and balances are completely and accurately recorded in accordance with authorised client instructions and relevant supporting records.

Authorising and processing transactions

F.5 Share/unitholder transaction instructions are complete, valid and appropriate before processing.

F.6 Authorised share/unitholder transactions and adjustments, including changes arising from corporate actions where applicable, are processed and recorded completely and accurately within appropriate timeframes.

F.7 Where Registry processes investor cash receipts, those receipts are completely and accurately recorded and allocated to the appropriate accounts and reconciled to relevant Registry records within appropriate timeframes.

F.8 Where Registry processes payments to share/unitholders, those payments are generated and processed completely and accurately and appropriately authorised before release.

F.9 Where the number of shares or units that may be issued is fixed or limited, issues are monitored to ensure authorised limits are not exceeded.

F.10 Where Registry processes distributions, authorised distribution information is applied completely and accurately to the relevant share/unitholder accounts, including through allocation, payment or reinvestment, as applicable.

Maintaining financial and other records

F.11 Registry records are maintained in accordance with authorised client arrangements and applicable requirements.

F.12 Changes to client/issuer fund or share-class and share/unitholder data relevant

to financial processing, including payment, allocation and investor tax information where applicable, are appropriately authorised and recorded completely and accurately.

F.13 Registry records of investor holdings are completely and accurately maintained, and aggregate units or shares on issue are reconciled to relevant issuer, fund accounting or other independent records, with differences identified, investigated and resolved.

Monitoring compliance

F.14 Registry transaction errors that may affect investor records or financial reporting are identified, investigated and appropriately corrected, with relevant matters escalated or reported to appropriate parties when required.

Monitoring subservice organisations

F.15 Subservice organisations performing Registry activities relevant to financial reporting are appropriately assessed and approved before the services commence.

F.16 Outsourced Registry activities relevant to financial reporting are governed by authorised agreements that clearly define the services, responsibilities and applicable performance requirements.

F.17 Subservice organisations performing Registry activities relevant to financial reporting are appropriately monitored, and significant service failures, incidents or control deficiencies are identified, escalated and addressed.

Reporting to clients

F.18 Client reports containing Registry information relevant to financial reporting are prepared completely and accurately and provided within appropriate timeframes.

Taxation

F.19 Where Registry is responsible for calculating or applying investor level tax amounts, those amounts are calculated or applied completely and accurately to the relevant investor accounts using appropriate investor tax information and applicable requirements.

Information technology

See control objectives: **G.1 – G.15**

G. Information Technology

Scope:

The service auditor applies professional judgement to determine when the information technology (IT) control objectives are applicable to an investment management service and should therefore be tested in addition to the control objectives that relate to the specific type of investment management service, as described in sections A-F of this Appendix.

The service auditor's professional judgement is based on:

- the understanding obtained of the risks arising from the service organisation's use of IT (including IT applications[1] and supporting IT infrastructure[2], as well as IT processes[3] and personnel involved in those processes), and the general IT controls implemented to address those risks, and
- the extent to which the achievement of an investment management service control objective, that is being tested, relies on those general IT controls (i.e., can the control objective be met without the general IT controls that are in place).

Examples of risks arising from the use of IT include risks related to inappropriate reliance on IT applications that are inaccurately processing client financial data, processing inaccurate client financial data, or both, such as:

- Unauthorised access to client financial data that may result in destruction of, or improper changes to such data, including the recording of unauthorised or non-existent transactions, or inaccurate recording of transactions.
- The possibility of personnel gaining access privileges beyond those necessary to perform their assigned duties thereby breaking down segregation of duties.
- Unauthorised changes to IT applications or other aspects of the IT environment.
- Failure to make necessary changes to IT applications or other aspects of the IT environment.
- Inappropriate manual intervention (overriding of controls).
- Potential loss of client financial data or inability to access such data as required.
- Risks arising from the use of AI, algorithms or models in the processing, analysis, valuation, reconciliation, monitoring or reporting of client financial data, including risks relating to inappropriate design, data inputs, assumptions, outputs, governance or unauthorised changes.

The service auditor's consideration of unauthorised access may include risks related to unauthorised access by internal or external parties. However, the service auditor is not performing a cybersecurity assessment. The service auditor obtains an understanding of how the service organisation is dealing with cybersecurity risks (as part of operational risks) and evaluates whether such risks have the potential to materially affect financial reporting. If so, the service auditor would evaluate the entity-level controls relevant to financial reporting, designed to prevent, detect and recover from cybersecurity incidents or detect incidents.

Control Objectives:

Restricting access to systems and client financial data

G.1 Physical access to infrastructure supporting in-scope systems and client

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1 An IT application is a program or a set of programs that is used in the initiation, processing, recording and reporting of transactions or information. IT applications include data warehouses and report writers.

2 The IT infrastructure comprises the network, operating systems, and databases and their related hardware and software.

3 The IT processes are the entity's processes to manage access to the IT environment, manage program changes or changes to the IT environment and manage IT operations.

financial data is restricted to authorised individuals.

G.2 Logical access, including privileged access, to in-scope systems and client financial data is restricted to authorised individuals and is appropriate to their roles and responsibilities.

G.3 Activity within in-scope systems that may affect client financial data or financial reporting processes is appropriately monitored so that unusual or unauthorised activity can be identified and investigated.

Maintaining integrity of the systems

G.4 Client financial data transmitted or processed by in-scope systems is complete and accurate and protected from unauthorised alteration or loss.

G.5 Infrastructure supporting in-scope systems and client financial data is appropriately protected from physical and environmental risks that could affect the availability or integrity of financial information.

Maintaining and developing systems hardware and software

G.6 New in-scope systems and changes to existing in-scope systems are authorised, appropriately tested and approved before implementation.

G.7 Where client financial data is migrated between in-scope systems, the migration is authorised and appropriately validated to ensure the data remains complete and accurate.

Recovering from processing interruptions

G.8 Recovery arrangements for in-scope systems and client financial data support the restoration of financial reporting services and information within timeframes appropriate to the reporting process.

G.9 In-scope systems and client financial data are backed up or otherwise recoverable so that financial information can be restored completely when required.

G.10 IT incidents that may affect the integrity, completeness or availability of client financial data are identified, investigated and appropriately resolved or remediated.

Monitoring compliance

G.11 Significant failures to meet IT service requirements that may affect financial reporting are identified and appropriately addressed.

G.12 Cybersecurity incidents that may affect the integrity, completeness or availability of client financial data are identified, investigated and appropriately remediated

Monitoring subservice organisations

G.13 Subservice organisations providing IT services relevant to financial reporting are appropriately assessed and approved before the services commence.

G.14 Outsourced IT services relevant to financial reporting are governed by authorised agreements that clearly define the services, responsibilities and applicable performance requirements.

G.15 IT subservice organisations relevant to financial reporting are appropriately monitored, and significant service issues or control deficiencies are identified, escalated and addressed.

H. Unit pricing [New section]

Definition

Unit pricing is the calculation, review and release of prices used to issue or redeem units or interests in managed investment schemes, including the application of relevant pricing adjustments where applicable.

The control objectives apply according to the unit pricing functions performed by the service organisation. Where responsibilities are split between the manager, investment administrator, registry or other service organisations, the relevant objectives apply to the function performed and to the transfer of information between those functions.

Incorrect unit pricing can result in subscriptions and redemptions being processed at incorrect amounts and may also affect fees, distributions and amounts attributable to unit holders. This could misstate cash, expenses, liabilities and net assets in the user entity's financial statements.

A unit pricing error does not necessarily result in a misstatement of the fund's financial statements. For example, where the underlying NAV and accounting records are correct but an incorrect price is applied to an investor transaction, the immediate effect may be an incorrect allocation of value between investors. The error may affect the financial statements where the incorrect transaction is recorded in the fund's accounting records, gives rise to an amount payable to an affected investor or the fund, or otherwise affect recognised balances.

For this purpose, compensation means an amount paid or payable to an investor or the fund to make good a financial loss arising from an error, for example where units were issued or redeemed at an incorrect price.

Control objectives

Establishing and maintaining pricing arrangements

H.1 An authorised unit pricing methodology is established and applied consistently in accordance with applicable governing documents and requirements.

Maintaining financial and other records

H.2 Information used in the calculation of unit prices is obtained from appropriate and authorised sources and is complete, accurate and appropriate for the relevant pricing point.

Authorising and processing transactions

H.3 Unit prices are calculated completely and accurately in accordance with the authorised unit pricing methodology

H.4 Unit prices are appropriately reviewed and approved before release or use.

H.5 Where pricing adjustments are applied, they are calculated and applied completely and accurately in accordance with the applicable pricing methodology.

H.6 Approved unit prices are communicated completely and accurately to the relevant processing function and applied to the appropriate investor transactions

in accordance with applicable pricing and dealing requirements.

Monitoring compliance

H.7 Errors in unit prices or information used in unit pricing, and failures to comply with the applicable pricing methodology, are identified, investigated and appropriately corrected.

H.8 Where a unit pricing error requires investor remediation, the resulting adjustments or compensation are determined and processed completely and accurately.

Monitoring subservice organisations

H.9 Subservice organisations performing unit pricing activities relevant to financial reporting are appropriately assessed and approved before the services commence.

H.10 Outsourced unit pricing activities are governed by authorised agreements that clearly define the services and responsibilities of the parties.

H.11 The performance of subservice organisations performing unit pricing activities relevant to financial reporting is appropriately monitored, and significant issues affecting the pricing process are identified and addressed.

I. Valuation governance and methodology

Definition

Valuation is the determination and application of values assigned to investments and other assets for financial reporting, NAV or unit-pricing purposes. These control objectives apply according to the valuation functions performed by the service organisation. Where valuation governance, pricing, model application, external valuation review or related activities are split across functions or service organisations, the relevant objectives apply to the function performed. Approved valuation information being recorded in the financial records remains a downstream Investment Administration or Property Investment Administration control and is not duplicated in this section.

Control objectives

Maintaining financial and other records

I. 1 Valuation methodologies applied to investments, and significant changes to those methodologies, are appropriately approved, documented and consistently applied in accordance with applicable valuation policies and financial reporting requirements.

I.2 Investments valued using observable prices are valued using appropriate pricing information obtained from authorised sources and applied completely and accurately.

I.3 Investments without observable prices, or with limited pricing sources are valued at appropriate intervals using approved valuation methodologies, assumptions and inputs, which are applied completely and accurately in accordance with applicable requirements.

I.4 Where an independent external valuation is required by applicable policies, governing documents or other requirements, the valuation is obtained from an appropriately qualified and independent valuer.

I.5 Significant events or information that may affect fair value are identified and assessed on a timely basis and appropriately reflected in valuations, with material valuation overrides or adjustments appropriately reviewed and approved.

I.6 Valuations obtained from external managers or other third parties are appropriately reviewed before use.

I.7 Significant or judgemental valuation outcomes are appropriately reviewed and approved before use.

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EXTERNAL REPORTING BOARD

NZAuASB Board meeting summary paper

Meeting date:	3 December 2026
Subject:	**Amendments to the ISA (NZ) for Less Complex Entities 2026**
Date:	6 November 2026
Prepared by:	BM
Reviewed by:	Misha Pieters

☒ **Action Required** ☐ **For Information Purposes Only**

Agenda item objectives

1. The objective of this agenda item is to APPROVE the:
   (a) *Amendments to the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities 2026*
   (b) Basis for conclusions
   (c) Certificate signing memorandum
   (d) Memorandum to the CE
   (e) Costs and benefits outlined in the Regulatory Standards (**RS**) Act Assessment
2. And AGREE:
   (a) The other contents of the RS Act Assessment to assist the CE in signing the Consistency Accountability Statement (**CAS**)

Background

3. We consulted on the proposed New Zealand-specific amendments from 11 August to 25 September 2026, together with the IAASB's proposed maintenance amendments to the ISA for LCE. We received: two written submissions (CA ANZ and Audit Assistant), one survey response (Baker Tilly Staples Rodway) and feedback during the online events held.
4. At the October 2026 meeting, the Board noted an update on the feedback received. Respondents considered the amendments necessary, appropriately scoped and proportionate, and clear and workable, and agreed that the benefits outweigh the costs. Staff recommended proceeding with an amending standard and seeking approval before the end of 2026, earlier than the February 2027 approval originally planned, so that auditors can apply the amendments as soon as possible.
5. This paper sets out staff responses to the drafting suggestions and additional benefits and costs raised by respondents. It also seeks approval of the final amending standard and supporting documents, and the Board’s agreement to the RS Act Assessment as support for the Chief Executive’s CAS.

Matters to consider

Drafting changes

6. Staff have considered the suggested changes to the drafting provided by respondents. These are discussed in detail below.

A. Reference to service auditor

7. One respondent suggested the following drafting change:

Respondent's Observation	Respondent's suggested actions
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.

Staff response

8. Staff agree with the respondent's suggestion. While reference to the work of a service auditor in an auditor's report is expected to be uncommon in an LCE audit, the amendments enable auditors to use evidence arising from work performed in relation to a service organisation. It is therefore appropriate for the standard to be clear about how the work of a service auditor may be referred to in the auditor's report.

9. An explicit prohibition is consistent with paragraph 21 of ISA (NZ) 402 and maintains alignment with the approach under the full ISAs (NZ). It also avoids any unintended implication that the auditor's use of a service auditor's work affects the auditor's responsibility for the opinion expressed.

10. The change does not create an additional reporting requirement. Rather, it provides clarity where the work of a service auditor is relevant to the audit. Staff therefore recommend the change, which has been incorporated into the final standard at paragraph NZ9.4.3.

B. Include a reference to investment management as an example of a service organisation

11. Two respondents suggested adding "investment management and custody services", or a fund manager example, to the first paragraph of EEM under paragraph 6.3.11, because externally managed investments were the catalyst for these amendments.

Staff response

12. Staff do not recommend this change because:

    (a) **The amendments are intended to be broadly applicable and future-proof the standard.** Although concerns about controls reports used in relation to externally managed investments were the catalyst for the amendments, the NZAuASB do not intend the amendments to be limited to that particular circumstance. The NZAuASB noted that outsourcing is increasing and that enabling auditors to use controls reports in appropriate circumstances would help ensure the standard remains relevant as the use of service organisations evolves. Adding an investment management or fund manager example may place undue emphasis on one current use case and obscure the broader purpose of the amendments.

    (b) **The suggested example describes an industry or service category rather than the relevant activities.** Whether an arrangement falls within the service organisation

requirements depends on the nature of the activities performed and their relevance to the entity's financial reporting, rather than whether the provider is described as an investment manager, fund manager or custodian.

(c) **The suggested wording could create tension with the existing exclusion in the EEM.** It could inadvertently capture transactions that are specifically excluded, namely transactions processed by financial institutions for an entity's account held at that institution in accordance with the entity's specific authorisation, such as account transactions processed by a bank or securities transactions processed by a broker.

(d) **The example is not included in the international standard.** The New Zealand amendments are intended to address the identified issue while maintaining alignment with the international standard wherever possible. Adding a sector-specific example that is not in the international material would reduce that alignment without being necessary to achieve the broader objective of the amendments.

13. Although staff do not recommend this change, the Basis for conclusions clarifies the rationale for the amendments and the issue that gave rise to them.

C. Enabling early adoption

14. Both written respondents and participants at the deep dive supported early adoption. Some would like this applicable for 31 December 2026 balance dates.

Staff response

15. Staff agree with allowing early adoption and have drafted this at paragraphs 0.5 and 0.6 of the final standard. The mandatory date remains periods beginning on or after 1 March 2026.

16. If the standard is gazetted on 17 December 2026, it will take effect on 14 January 2027, the 28th day after publication. Auditors may therefore early adopt for an accounting period that began before 1 March 2026, provided that the period has not ended, or does not end, before 14 January 2027.

17. The amendments cannot apply to periods ending before 14 January 2027 because the standard cannot have retrospective effect under section 28(2)(b) of the Financial Reporting Act 2013. They therefore cannot be applied to periods ending on 31 December 2026.

D. Other minor changes in finalisation of the standard

18. In finalising the standard, staff also made the minor editorial and consistency changes highlighted in the marked-up final draft. These include corrections to wording, punctuation, terminology and paragraph labelling. They do not change the substance of the requirements.

19. Does the Board **AGREE** with the staff responses and the recommended changes reflected in the final standard?

Benefits and costs

20. The consultation document outlined the expected benefits and costs of the proposed New Zealand-specific amendments and our conclusion that the benefits would outweigh the costs. All respondents agreed with the identified benefits and costs. These have been carried forward into Appendix A of the RS Act Assessment.

21. The consultation document invited respondents to identify any additional benefits or costs. One respondent replied:

- 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.

Staff response

22. The respondent's first point is that the amendment supports audit quality by enabling auditors to obtain and use relevant controls reports where they have limited direct visibility over processing performed by a service organisation. This is consistent with, and implicit in, the identified benefit of improving audit efficiency *without reducing audit quality* set out in the RS Act Assessment. This amending standard does not introduce a new audit quality benefit beyond that already contemplated; rather, it provides an example of how audit quality is maintained while allowing a more tailored audit approach.

23. The respondent's second point relates to the consequences of retaining the existing restriction, namely that auditors may continue to apply the full ISAs (NZ) rather than the ISA (NZ) for LCE in circumstances involving service organisations. This is effectively the inverse of the identified benefit that the amendment *supports greater adoption of the ISA (NZ) for LCE* set out in the RS Act Assessment. By removing an unnecessary barrier to use of the standard, the amendment reduces the likelihood that auditors will default to the full ISAs (NZ), with the associated additional cost and effort for auditors and clients.

24. Accordingly, we do not propose to include these as separate benefits and costs in the RS Act Assessment, as they are already appropriately reflected in the existing assessment of benefits.

25. Does the Board **AGREE** with the staff responses and that no changes are required to the benefits and costs identified in the consultation document and included in Appendix A of the RS Act Assessment?

Approval of documents

Standard

26. Subject to the above discussion, does the Board **APPROVE** the amending standard *Amendments to the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities 2026* (subject to the approval of the Chair of the External Reporting Board of the standard and subject to the approval of the Chief Executive of the XRB of the Consistency Accountability Statement)?

Basis for conclusions and Certificate signing memorandum

27. We seek approval of the Basis for conclusions, which summarises the background, what we heard and how the Board responded, including the decisions on the service auditor reference, the investment management example and early adoption.

28. We also seek approval of the Certificate signing memorandum to the XRB Chair, which recommends that the Chair sign the certificate of determination approving the issue of the standard.

29. Does the Board **APPROVE** the Basis for conclusions for publication?

30. Does the Board **APPROVE** the certificate signing memorandum from the Chair of the NZAuASB to the Chair of the External Reporting Board, requesting approval to issue?

Regulatory Standards Act requirements

31. All standards issued by the XRB after 1 July 2026 are required to comply with the RS Act. The RS Act requires the Chief Executive to sign a CAS which:

    (a) confirms that the XRB has reviewed an authoritative notice or standard and its process for developing it, for consistency with the principles of responsible regulation in section 9 of the RS Act; and

    (b) summarises any inconsistency with the principles identified in the review, or if there are no inconsistencies with the principles of responsible regulation, then stating that fact.

32. The RS Act also requires the explanatory note to a standard to contain:

    (a) a link to the CAS (which will be published on the XRB's website) and

    (b) a statement from the XRB Board (or a technical board acting under delegation) briefly explaining the reasons for any inconsistency with the principles identified in the CAS. Because the assessment identified no inconsistencies, a statement from the Board explaining the reasons for an inconsistency is not required for this standard.

33. We have assessed the standard and the process for developing it, for consistency with the principles of responsible regulation as set out in section 9 of the RS Act. This assessment has identified no inconsistencies with the principles of responsible regulation.

34. In the agenda papers is a draft memo from the NZAuASB Chair to the Chief Executive requesting sign-off of the CAS, which is presented for approval.

35. Does the Board:

    (a) **AGREE** the content of the RS Act Assessment as support for the Chief Executive's Consistency Accountability Statement; and

    (b) **APPROVE** the benefits and costs assessment in Appendix A to the RS Act Assessment, including the conclusion that the expected benefits of issuing the standard outweigh the expected costs.

    (c) **APPROVE** the draft memo from the NZAuASB Chair to the Chief Executive.

Next planned steps

Date	Action
3 December 2026	NZAuASB considers approval of the amending standard and supporting documents
Early December 2026	NZAuASB Chair memorandum to the CE and Certificate signing memorandum to the XRB Chair
9 December 2026	CE signs the CAS; XRB Chair signs the certificate of determination. Standard made
17 December 2026	Standard gazetted and published on the XRB website, with the Basis for conclusions and the CAS. Standard published on the Standards Navigator shortly thereafter.
14 January 2027	Standard takes effect. Issue an updated *Supplemental guide to the Authority*
From January 2027	Communications through the Audit and assurance alert and LinkedIn; publish the consolidated ISA (NZ) for LCE

Recommendations

36. Subject to our discussions, we recommend that the Board APPROVE:
    (a) Amendments to the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities 2026
    (b) Basis for conclusions
    (c) Certificate signing memorandum
    (d) Memorandum from NZAuASB Chair to the CE
    (e) Costs and benefits outlined in the RS Act Assessment
37. And AGREE:
    (a) The other contents of the RS Act Assessment to assist the CE in signing the CAS

Material presented

- Board meeting summary paper
- Amendments to the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities 2026
- Basis for conclusions
- Draft Certificate signing memorandum
- RS Act Assessment to support CAS
- Draft Memo from NZAuASB Chair to CE

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Final draft. Yellow highlights are changes made since the ED

XRB 2026/65

This secondary legislation is administered by the External Reporting Board. For more information please see:

Website: www.xrb.govt.nz

Contact phone: +64 4 550 2030

Contact address: Level 6/154 Featherston St, Wellington, 6011

This standard was published in the *Gazette* on 17 December 2026 and takes effect on 14 January 2027. There is an explanatory note at the end of this standard that includes an explanation of how and from when this standard operates

Amendments to the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities 2026

This standard is issued under section 12(b) of the Financial Reporting Act 2013 by the New Zealand Auditing and Assurance Standards Board:

(a) acting under delegated authority of the External Reporting Board (given in accordance with section 73 of the Crown Entities Act 2004); and

(b) after complying with section 22 of the Financial Reporting Act 2013.

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Title

0.1 This standard is the Amendments to the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities 2026.

Commencement

0.2 This standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019 (see section 27 of the Financial Reporting Act 2013).

Principal standard

0.3 This standard amends the following principal standard:

International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities (**ISA (NZ) for LCE**)

XRB 2026/65

How amendments are made

0.4 In this standard, text in the principal standard is deleted or inserted as follows:

- text that is shown as ~~struck out~~ is deleted from the stated provision of the principal standard
- text that is shown as underlined is inserted into the provision, or is inserted as a new provision, of the principal standard

Any other text included in this standard is only for the purposes of identifying these amendments within the principal standard.

Application

0.5 The accounting periods in relation to which this standard commences to apply are:

(a) for an **early adopter**, those accounting periods, following and including, the **early adoption accounting period.**

(b) for any other auditor, those accounting periods following, and including, the first accounting period that begins on or after the **mandatory date**.

0.6 In paragraph 0.5—

early adopter means an auditor that applies this standard for an early adoption accounting period.

early adoption accounting period means the accounting period:

(a) that begins before the mandatory date but has not ended or does not end before this standard takes effect (and to avoid doubt, that period may have begun before this standard takes effect); and

(b) for which the early adopter—

(i) first applies this standard for an audit engagement of a less complex entity; and

(ii) discloses in the auditor's report for that accounting period that this standard has been applied for that period

mandatory date means 1 March 2026.

XRB 2026/65

Amendments to International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities 2026

EEM after paragraph A.3. amended

A.3.

[NZ] Also, the ISA (NZ) for LCE does not include any requirements addressing:

- *Procedures or matters typically relevant to listed entities, including reporting on segment information or key audit matters.*
- *When the auditor intends to use the work of internal auditors, as this would ordinarily not be applicable to an audit of an LCE.*
- ~~*When the auditor intends to use a report provided by a service auditor of a service organisation either as audit evidence about the design and implementation of controls at the service organisation (i.e., a type 1 or type 2 report), or as audit evidence that controls at the service organisation are operating effectively (i.e., a type 2 report), as this would ordinarily not be applicable to an audit of an LCE.*~~

EEM after paragraph 6.3.11. amended

6.3.11

[NZ] LCEs may ~~often~~ use external ~~bookkeeping~~ services ranging from the initiation, recording and processing of ~~certain~~ transactions (for example, processing of payroll and payment of payroll taxes) and maintenance of their accounting records to the preparation of their financial statements. The use of such a service organisation for the preparation of its financial statements does not relieve management of the less complex entity and, where appropriate, those charged with governance of their responsibilities for the financial statements.

[NZ] Service organisations do not include financial institutions that only process transactions for an entity's account held at the financial institution in accordance with the entity's specific authorisation, for example, the processing of account transactions by a bank or securities transactions by a broker.

The services of a service organisation are relevant to the entity's process to prepare its financial statements when those services, and the controls over them, are part of, or affect the process described in paragraph 6.3.8.

The auditor's understanding helps to inform the auditor about the nature and significance of the services provided by the service organisation and their effect on the user entity's system of internal control, which affect the nature and extent of work to be performed by the auditor regarding the services provided by a service organisation. The significance of the controls of the service organisation relative to those of the entity depends on the degree of interaction between the service organisation's activities and those of the entity. For example, the service organisation may process and account for transactions that are still required to be authorised by the entity; ~~,~~ alternatively, the entity may rely on such controls being effected ~~affected~~ at the service organisation.

[NZ] The service organisation may have engaged a service auditor to provide a report on the description and design (a type 1 report), or on the description, design and operating effectiveness (a type 2 report), of controls at the service organisation. Such reports may assist ~~provide information for~~ the auditor in obtaining an understanding of the user entity's system of internal control. ~~However, this standard has not been designed for, and therefore does not include requirements to address, the auditor's use of such reports as~~ A type 1 report or type 2 report may also be used as audit evidence

about the design~~,~~ and implementation of controls at the service organisation, and a type 2 report may be used as audit evidence about the ~~or~~ operating effectiveness of controls at the service organisation.

Four new requirement paragraphs added after paragraph 6.3.11. EEM added after NZ6.3.13 and NZ6.3.14.

NZ6.3.12. If the entity uses the services of a service organisation and those services are relevant to the entity's process to prepare its financial statements, the auditor shall enquire of management whether the service organisation has reported, or the entity is otherwise aware of any:

(a) fraud;

(b) non-compliance with laws or regulations; and

(c) uncorrected misstatements

affecting the entity's financial statements.

The auditor shall evaluate how such matters affect the nature, timing and extent of further audit procedures, including their effect on the auditor's conclusions and auditor's report.

Use of a Type 1 report or Type 2 report

NZ6.3.13. If the auditor intends to use a type 1 report or type 2 report as audit evidence, the auditor shall evaluate:

(a) the professional competence of the service auditor;

(b) the independence of the service auditor from the service organisation;

(c) the adequacy of the standards applied in the type 1 report or type 2 report; and

(d) whether the report is as at an appropriate date or covers an appropriate time period.

[NZ] A type 1 report or type 2 report that is as of a date or for a period outside the user entity's reporting period may assist the auditor in obtaining a preliminary understanding of the controls implemented at the service organisation if the report is supplemented by additional current information from other sources. If the service organisation's description of controls is as of a date or for a period before the beginning of the period under audit, the auditor may perform procedures to update the information in the type 1 report or type 2 report.

A type 2 report may be intended to meet the needs of a range of users. The auditor may evaluate the relevant tests of controls and results to determine whether the service auditor's report provides sufficient appropriate audit evidence.

NZ6.3.14. If the auditor intends to use a type 1 report or a type 2 report that excludes the services provided by a subservice organisation and those services are relevant to the audit of the user entity's financial statements, the auditor shall apply the requirements of this standard with respect to the services provided by the subservice organisation.

A service organisation may use a subservice organisation to provide some of the services relevant to the user entity's process to prepare its financial statements. The auditor may need to consider controls at the subservice organisation when those services are relevant to the audit. In determining the significance of those controls, the auditor may consider the nature and materiality of the transactions processed by the service organisation and the subservice organisation, and the extent of interaction between the user entity, the service organisation and the subservice organisation.

NZ6.3.15. If the auditor intends to use a type 1 report or type 2 report as audit evidence to support their understanding about the design and implementation of controls at the service organisation, the auditor shall:

(a) Determine whether complementary user entity controls identified by the service organisation are relevant to the user entity and, if so, obtain an understanding of whether the user entity has designed and implemented such controls; and

(b) Evaluate whether the report provides sufficient appropriate audit evidence to support the auditor's understanding of the design and implementation of controls at the service organisation.

EEM after paragraph 7.4.28. amended

7.4.28.

[NZ] To obtain sufficient appropriate audit evidence, the following procedures may be considered by the auditor:

- *Inspect records and documents held by the user entity;*
- *Inspect records and documents held by the service organisation;*
- *Obtain confirmations of balances and transactions from the service organisation in instances where the user entity maintains its own independent records of balances and transactions;*
- *Obtain a type 2 report, if available.*

Two new requirement paragraphs added after paragraph 7.4.28 and EEM added at paragraph NZ7.4.29

NZ7.4.29. If the auditor's risk assessment includes an expectation that controls at the service organisation are operating effectively, the auditor shall obtain audit evidence about the operating effectiveness of those controls.

[NZ] The auditor may obtain audit evidence about the operating effectiveness of controls by:

- *Obtaining a type 2 report, if available; or*
- *Performing tests of controls at the service organisation.*

Use of a type 2 report

NZ7.4.30. If the auditor intends to use a type 2 report as audit evidence that controls at the service organisation are operating effectively, the auditor shall determine whether the type 2 report provides sufficient appropriate audit evidence about the effectiveness of the controls to support the auditor's risk assessment. In making this determination, the auditor shall:

(a) Determine whether complementary user entity controls identified by the service organisation are relevant to the user entity and, if so, obtain an understanding of whether the user entity has designed and implemented such controls and, if so, ~~testing~~ test their operating effectiveness;

(b) Evaluate the adequacy of the time period covered by the tests of controls and the time elapsed since the tests of controls were performed;

(c) Evaluate whether the tests of controls performed by the service auditor and the results thereof, as described in the service auditor's report:

- are relevant to the assertions in the user entity's financial statements and
- provide sufficient appropriate audit evidence to support the auditor's risk assessment.

[NZ] For some assertions, the shorter the period covered by the tests of controls, and the longer the time elapsed since those tests were performed, the less audit evidence the type 2 report may provide. Where there is limited overlap between the period covered by the type 2 report and the period for which the auditor intends to rely on the report, additional audit evidence may be necessary to support the auditor's assessment of the operating effectiveness of controls relevant to those assertions.

Additional audit evidence may be necessary when there have been significant changes to controls at the service organisation outside the period covered by the type 2 report. In determining whether additional audit evidence is necessary, the auditor may consider the significance of the risks of material misstatement at the assertion level, the controls affected by the changes, and the extent of audit evidence already obtained about the operating effectiveness of those controls. Additional audit evidence may be obtained, for example, by extending tests of controls over the remaining period or testing the user entity's process to monitor the system of internal control.

The Independent Auditor's Report below paragraph NZ9.4.1. amended

Amend text under subheading Auditor's Responsibilities for the Audit of the Financial Statements

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by [management ~~and Those Charged with Governance~~]. …

Paragraph 9.4.3. amended

NZ9.4.3. 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. If such reference is required by law or regulation, the auditor shall indicate in the auditor's report that the reference does not reduce the auditor's responsibility for the auditor's opinion.

The Independent Auditor's Report below paragraph 11.14.1. amended

Amend text under subheading Auditor's Responsibilities for the Audit of the [Financial Report/Performance Report]

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by [management ~~and Those Charged with Governance~~]. …

EEM at paragraph 11.19.1. amended

11.19.1.

To obtain sufficient appropriate audit evidence, the following procedures may be considered by the auditor:

- *Inspect records and documents held by the user entity;*
- *Inspect records and documents held by the service organisation;*
- *Obtain confirmations of balances and transactions from the service organisation in instances where the user entity maintains its own independent records of balances and transactions~~.~~;*
- *Obtain a type 2 report, if available.*

New definitions added to APPENDIX 1 Glossary of Terms

[NZ] Complementary user entity controls – Controls that the service organisation assumes, in the design of its service, will be implemented by user entities, and which, if necessary to achieve control objectives, are identified in the description of its system.

[NZ] Service organisation's system – The policies and procedures designed, implemented and maintained by the service organisation to provide user entities with the services covered by the service auditor's report

[NZ] Subservice organisation – A service organisation used by another service organisation to perform some of the services provided to user entities that are part of those user entities' information systems relevant to financial reporting.

[NZ] Type 1 report – A report on the description and design of controls at a service organisation that comprises:

i. A description, prepared by management of the service organisation, of the service organisation's system, control objectives and related controls that have been designed and implemented as at a specified date; and

ii. A report by the service auditor with the objective of conveying reasonable assurance that includes the service auditor's opinion on the description of the service organisation's system, control objectives and related controls and the suitability of the design of the controls to achieve the specified control objectives.

[NZ] Type 2 report – A report on the description, design, and operating effectiveness of controls at a service organisation that comprises:

i. A description, prepared by management of the service organisation, of the service organisation's system, control objectives and related controls, their design and implementation as at a specified date or throughout a specified period and, in some cases, their operating effectiveness throughout a specified period; and

ii. A report by the service auditor with the objective of conveying reasonable assurance that includes:

a. The service auditor's opinion on the description of the service organisation's system, control objectives and related controls, the suitability of the design of the controls to achieve the specified control objectives, and the operating effectiveness of the controls; and

b. A description of the service auditor's tests of the controls and the results thereof.

The Illustrative Engagement letter at Appendix 2 amended

Amend text under the subheading [*The responsibilities of the Auditor*]

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by [management ~~and those charged with governance~~].

The Illustrative Engagement letter at Appendix 2A amended

Amend text under the subheading [*The responsibilities of the Auditor*]

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by [management ~~and those charged with governance~~].

Issued at Wellington on 17 December 2026

Graeme Pinfold

Chair

New Zealand Auditing and Assurance Standards Board acting under delegated authority of the External Reporting Board

XRB 2026/65

EXPLANATORY NOTE AND OTHER INFORMATION

This note and other information is not part of the standard

Explanatory note

This standard is the Amendments to International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities 2026.

This standard amends the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities (principal standard) to enable auditors to use controls reports as audit evidence in certain circumstances when auditors are using the principal standard. This standard applies to accounting periods that begin on or after 1 March 2026.

The paragraph numbering within this amendment standard refers to the paragraph numbering of the principal standard as issued. Explanatory and other material (EEM) is not separately numbered and is identified by reference to the numbered paragraph with which it is associated. The footnote numbering within this amendment standard may be adjusted consecutively rather than referring to the footnote numbering of the principal standard as issued. Accordingly, some paragraph and footnote numbering may not align with the compiled standard as published from time to time by the XRB on its website.

This standard was issued by the New Zealand Auditing and Assurance Standards Board acting under delegated authority of the External Reporting Board.

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Consistency with principles of responsible regulation

The External Reporting Board provides the following document relating to its review of this secondary legislation, and its process for developing it, for consistency with the principles of responsible regulation under the Regulatory Standards Act 2025:

- a consistency accountability statement on 9 December 2026:

A copy of this document can be found at [https://www.xrb.govt.nz/about-xrb/legislation/consistency-accountability-statements/]

The External Reporting Board considers that a statement from the maker under section 14(1)(b) of the Regulatory Standards Act 2025 is not required for this secondary legislation.

XRB 2026/65

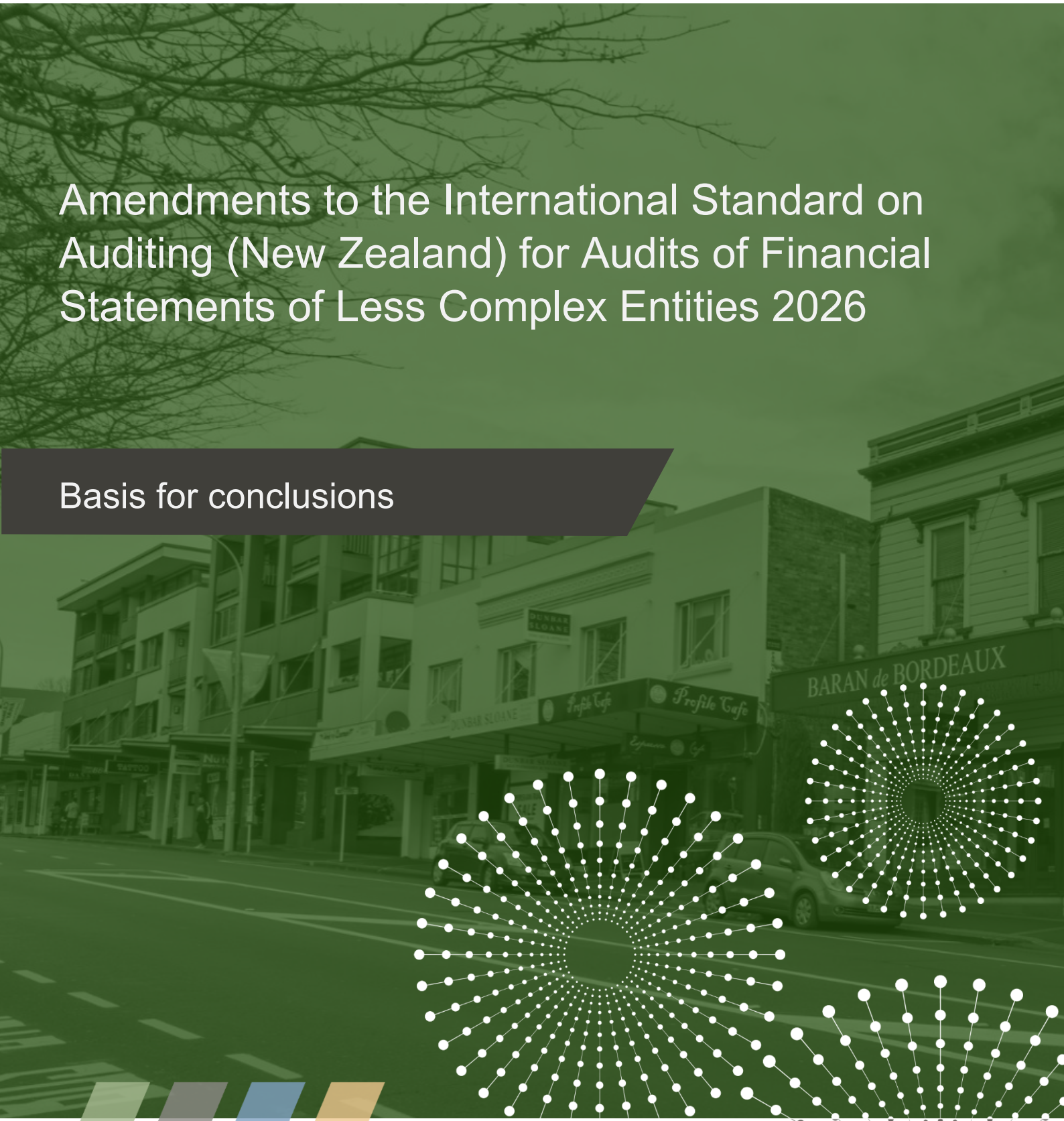
Minimum Legislative Information

This standard is secondary legislation published under the Legislation Act 2019.	
Title	Amendments to International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities 2026
Instrument ID	XRB 2026/65
Classification	Amendment
Empowering provisions	Section 12(b) of the Financial Reporting Act 2013
Date made	9 December 2026
Consolidation as at date	
Date of publication	17 December 2026
Commencement date	14 January 2027
Administering agency	External Reporting Board

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Amendments to the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities 2026

Basis for conclusions



December 2026

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This document relates to, but does not form part of, the *Amendments to the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities 2026*, which was approved in December 2026.

It summarises the major issues raised by respondents to the Exposure Draft of the Amendments to the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities 2026 and how the NZAuASB has addressed them.

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Basis for conclusions: Amendments to the ISA (NZ) for LCE 2026

Introduction

1. The *International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities* (ISA (NZ) for LCE) is a standalone auditing standard available for auditors to use when auditing less complex entities.
2. The ISA (NZ) for LCE includes all relevant requirements to achieve the same level of reasonable assurance as the full suite of International Standards on Auditing (New Zealand) (ISAs (NZ)), proportionate and tailored to the nature and circumstances of a less complex entity. While it is a simpler standard, it does not result in a lesser work effort.
3. The ISA (NZ) for LCE is only available for auditors to use if the entity meets the specific criteria of a less complex entity set out in Part A of the standard. When an audit engagement is undertaken using this standard, the ISAs (NZ) and New Zealand Auditing Standards do not apply to the engagement.
4. We welcome feedback as auditors apply the ISA (NZ) for LCE and will look for ways to facilitate sharing experiences and learnings with others.

Background

5. The ISA (NZ) for LCE recognises that a LCE may use a service organisation. However, when an auditor wanted to use a type 1 or type 2 controls report[1] as audit evidence, the standard did not include all the relevant ISA (NZ) 402[2] requirements needed to support that approach.
6. The standard was deliberately not designed for audits that use controls reports as audit evidence. The rationale that informed the IAASB's approach was that reliance on these reports as audit evidence (i.e. for the operating effectiveness of controls) is not typical for audits of LCEs.
7. The general introductory Essential Explanatory Material (**EEM**) explained that the omitted requirements related to using controls reports as audit evidence about the design, implementation, and operating effectiveness of controls. The EEM explained that these requirements would ordinarily not apply to an audit of an LCE.
8. Following the issue of the ISA (NZ) for LCE, auditors told us that the current restriction on using controls reports as audit evidence is a perceived barrier to adopting the ISA (NZ) for LCE. This was particularly relevant in audits of LCEs that use the services of investment management service organisations. Although these restrictions align with the international standard, New Zealand auditors of LCEs may obtain controls reports from service organisations and wish to use them as audit evidence.
9. In response to feedback received, we agreed to explore this issue by drafting and issuing an exposure draft that contains targeted and proportionate requirements based on ISA (NZ) 402 *Audit Considerations Relating to an Entity Using a Service Organisation*.
10. Although concerns about controls reports used in relation to externally managed investments were the catalyst for the amendments, we did not intend the amendments to be limited to that particular circumstance. The XRB notes that outsourcing is increasing and enabling auditors to use controls reports in appropriate circumstances would help ensure the standard remains relevant as the use of service organisations evolves.
11. The XRB released a consultation document and exposure draft in August 2026. We consulted on whether the proposed amendments were:
    (a) necessary
    (b) appropriately scoped and proportionate

[1] See the glossary of the amending standard for definitions of type 1 and type 2 controls report
[2] ISA (NZ) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*

(c) clear and workable.

12. The *Amendments to the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities 2026* add New Zealand-specific amendments adapted from ISA (NZ) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*, to enable auditors to use controls reports from service organisations as audit evidence in certain circumstances.

13. The XRB developed the amendments with reference to our original approach in developing NZ Part 11 to the ISA (NZ) for LCE standard. The drafting principles were:

    (a) Clear - drafted in an easy to understand and unambiguous way.

    (b) Understandable - avoiding unnecessary words and elements and using plain language.

    (c) Concise - avoiding unnecessary repetition.

14. We have therefore included only those requirements from ISA (NZ) 402 and essential explanatory material needed to support that outcome in a proportionate way for audits of less complex entities.

15. We have not included requirements that are already addressed elsewhere in the ISA (NZ) for LCE, such as the consequence of being unable to obtain sufficient appropriate audit evidence, or material that is background, procedural, or overly detailed for the drafting style of the standard.

16. We have also not included parts of ISA (NZ) 402 that are unlikely to be relevant in an audit of a less complex entity, or that may indicate a level of complexity inconsistent with use of the ISA (NZ) for LCE. This includes requirements about using another auditor to perform work at the service organisation[3] , and public sector-specific access considerations. Similarly, we have not included detailed examples and “how to” application material unless it is needed as essential explanatory material to support consistent application of the proposed requirements. This approach keeps the amendments narrow, proportionate and consistent with the purpose and drafting conventions of the ISA for LCE, while still enabling auditors to use controls reports as audit evidence in appropriate circumstances.

17. The amendments:

    - Add definitions of type 1 reports, type 2 reports, complementary user entity controls, subservice organisations, and a service organisation’s system
    - Add EEM on service organisations and the types of services they provide
    - Add conditional requirements for using type 1 or type 2 controls reports as audit evidence; and
    - Add a conditional requirement relating to fraud, non-compliance with laws and regulations, and uncorrected misstatements in relation to activities at the service organisation.

18. We also consulted on the benefits and costs of adoption of the standard in New Zealand.

What we heard

19. The XRB received two written submissions and one survey response and obtained additional feedback from virtual events held during the consultation process of the exposure draft. Overall, respondents were supportive of the proposed amendments to the standard.

[3] Use of component auditors is already prohibited in the ISA (NZ) for LCE unless in specific circumstances.

Requirements and essential explanatory material

20. All respondents supported the amendments and noted that the amended requirements and EEM were necessary, appropriately scoped and proportionate, and clear and workable for audits of less complex entities.

21. Respondents were supportive of the proposed amendments and no disagreements with the proposals were received. The following drafting points were considered:

    - To further align the standard with ISA (NZ) 402 and specifically prohibit the auditor from referring to the service auditor's work in the auditor's report. We amended paragraph NZ 9.4.3.1 to maintain consistency in this area with ISA (NZ) 402.
    - To add "investment management and custody services" as an example to the EEM. Consistent feedback has highlighted the issue that has necessitated the New Zealand changes. The examples raised by stakeholders include where a charity outsources the management and custody of its investments to a service organisation. In these circumstances, the auditor may seek to use a type 2 controls report as audit evidence about the entity's existence and valuation of the investments.

      We acknowledge that this type of scenario was the catalyst for the amendments. The restriction on using controls reports had been identified as a practical barrier to using the ISA (NZ) for LCE, particularly for audits of entities using investment management service organisations. However, we decided not to add "investment management and custody services" as a specific example in the EEM because the amendments are intended to apply more broadly wherever an LCE uses a service organisation and the auditor intends to use a type 1 or type 2 report as audit evidence. Whether the requirements apply depends on the nature of the activities performed by the service organisation and their relevance to the entity's financial reporting, rather than the industry or type of service provider. Including a sector-specific example could place undue emphasis on one use case and create tension with the exclusion for certain transactions processed by financial institutions.

Application date

22. The consultation proposed application for periods beginning on or after 1 March 2026. Respondents supported that date but requested early adoption. We have therefore adjusted the commencement and application paragraphs to allow early adoption. Auditors may therefore early adopt for an accounting period that began before 1 March 2026, provided that the period has not ended, or does not end, before 14 January 2027. Early adoption must be disclosed in the auditor's report.

Costs and benefits

23. All respondents agreed with the benefits and costs listed in the consultation document.

24. One respondent also identified support for audit quality as an additional benefit and the risk of auditors defaulting to the full ISAs (NZ) as a cost of inaction. The XRB considers that these points are already reflected in the identified benefits of improving audit efficiency without reducing audit quality and supporting greater adoption of the ISA (NZ) for LCE. Therefore, no changes were made to the benefits and costs which were consulted on.

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Memorandum

To:	John Kensington, Chair External Reporting Board
From:	Graeme Pinfold, Chair NZAuASB
CC:	Wendy Venter, Chief Executive External Reporting Board
Subject:	**Certificate Signing Memorandum:** *Amendments to the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities 2026*
Date:	December 2026

☒ **Action Required** ☐ **For Information Purposes Only**

Action requested

1. The NZAuASB seeks your approval to issue *Amendments to the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities 2026* (XRB 2026/65).

Recommendation

2. The NZAuASB recommends that you sign the attached certificate of determination on behalf of the XRB Board.
3. Please notify the Chief Executive and copy me, once you have signed the certificate of determination.

The milestones in the development of the standard

Domestic process, including a summary of the major issues raised by stakeholders and the conclusions reached

4. Auditors may obtain type 1 or type 2 controls reports from service organisations and may want to rely on those reports as audit evidence. The current ISA (NZ) for LCE does not fully support that.
5. Following the issue of the ISA (NZ) for LCE, auditors told us that the current restriction on using controls reports as audit evidence are a perceived barrier to adopting the ISA (NZ) for LCE. Although the restriction aligns with the international standard, New Zealand auditors of LCEs may obtain controls reports from service organisations and wish to use them as audit evidence.
6. Responsive to feedback received, the NZAuASB agreed to explore this issue by drafting and issuing an exposure draft that contains targeted and proportionate requirements based on ISA (NZ) 402 *Audit Considerations Relating to an Entity Using a Service Organisation*.
7. The consultation was issued in August 2026 and closed on 25 September 2026.

8. The consultation document and exposure draft were published on the XRB website and promoted through LinkedIn, the Audit and Assurance Alert, and CA ANZ and Audit Assistant newsletters. Outreach included a walkthrough webcast on YouTube, a virtual deep dive attended by 17 participants, and a community of practice event held on 23 September.

9. The NZAuASB received two written submissions, from CA ANZ and Audit Assistant, and one survey response, from Baker Tilly Staples Rodway.

10. Respondents and those who participated in outreach events supported the targeted New Zealand amendments and agreed that the expected benefits outweighed the implementation costs. Feedback identified the existing restriction as a practical barrier to adoption, supported the proportionate approach based on ISA (NZ) 402, and encouraged making the amendments available as soon as practicable.

11. Respondents suggested drafting changes and a preference to permit early adoption. This feedback was addressed as follows:

    (a) A drafting change was made to further align the standard with ISA (NZ) 402 to specifically prohibit the auditor from referring to the service auditor's work in the auditor's report. We have considered this further and agreed to make a change to extant paragraph NZ 9.4.3.1 to maintain consistency with ISA (NZ) 402.

    (b) Enabling early adoption. The consultation proposed application for periods beginning on or after 1 March 2026. Respondents supported that date but requested early adoption. We have therefore adjusted the commencement and application paragraphs for this. The current drafting retains the 28-day commencement period; on the proposed publication date of 17 December 2026, the amending standard would take effect on 14 January 2027.

12. Respondents suggested adding an investment management or fund manager example to the essential explanatory material (EEM) at paragraph 6.3.11 to clarify that the circumstances that initially gave rise to the proposed amendments are permitted by the standard. No change was made to add that wording for the following reasons:

    (a) **The amendments are intended to be broadly applicable and future-proof the standard.** The NZAuASB do not intend the amendments to be limited to the particular circumstances in relation to externally managed investments. The NZAuASB noted that outsourcing is increasing and that enabling auditors to use controls reports in appropriate circumstances would help ensure the standard remains relevant as the use of service organisations evolves. Adding an investment management or fund manager example may place undue emphasis on one current use case and obscure the broader purpose of the amendments.

    (b) **The suggested example describes an industry or service category rather than the relevant activities.** Whether an arrangement falls within the service organisation requirements depends on the nature of the activities performed and their relevance to the entity's financial reporting, rather than whether the provider is described as an investment manager, fund manager or custodian.

    (c) **The suggested wording could create tension with the existing exclusion in the EEM.** It could inadvertently capture transactions that are specifically excluded, namely transactions processed by financial institutions for an entity's account held at that institution in accordance with the entity's specific authorisation, such as account transactions processed by a bank or securities transactions processed by a broker.

    (d) **The example is not included in the international standard.** The New Zealand amendments are intended to address the identified issue while maintaining alignment with the international standard wherever possible. Adding a sector-specific example

that is not in the international material would reduce that alignment without being necessary to achieve the broader objective of the amendments.

13. However, the *Basis for conclusions made* explains that externally managed investments were the catalyst for the amendments, while making clear that the amendments are intended to apply more broadly whenever an LCE uses a service organisation and the auditor intends to use a type 1 or type 2 report as audit evidence.

14. In December 2026, the NZAuASB agreed to issue *Amendments to the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities 2026* subject to your agreement to sign the attached Certificate Signing Memorandum. The standard was approved by the NZAuASB members.

15. The *Amendments to the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities 2026* add New Zealand specific amendments adapted from ISA (NZ) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*, to enable auditors to use controls reports from service organisations as audit evidence in certain circumstances.

Compliance with due process requirements

16. We consider that the process followed by the NZAuASB complied with the due process requirements established by the XRB Board, including the consultation requirements of section 22 of the Financial Reporting Act 2013.

An explanation of how the standard is consistent with the XRB Board's financial reporting strategy

17. There are no international or Australian equivalents to this amending standard. It has however been developed using the principles outlined in ISA (NZ) 402 and tailored for an LCE audit by XRB staff. All those consulted agreed that the amendments are necessary and workable.

Review of the standard as required by the Regulatory Standards Act 2025 (RS Act)

The standard has been reviewed as required by the RS Act

18. The standard and the process for developing it have been reviewed and assessed in accordance with the RS Act, including as to consistency with the principles of responsible regulation set out in under that Act.

19. For the purposes of the RS Act, no inconsistencies have been identified.

20. Full details of the review and assessment are set out in the Regulatory Standards Act Assessment document for this standard.

Benefits and costs have been considered in line with the RS Act

21. The review and assessment included a review of the benefits and costs of the standard as provided for by the RS Act.

22. For the purposes of the RS Act, it is considered that the benefits exceed the costs.

Consistency Accountability Statement

23. We have sent a memorandum to the Chief Executive recommending that the Chief Executive sign the consistency accountability statement as required by the RS Act on the basis of the review and assessment referred to in paragraphs 18-22 above.

24. The Chief Executive has confirmed that she is ready to make the consistency accountability statement.

Whether it was necessary to consult with the Privacy Commissioner under section 22(2) of the Financial Reporting Act 2013, and if so, the outcome of that consultation.

25. The Financial Reporting Act 2013, section 22(2) requires that the External Reporting Board consult with the Privacy Commissioner where an accounting or assurance standard is likely to require the disclosure of personal information. No such consultation is required in relation to this standard.

Any other matters the technical board considers should be drawn to the attention of the XRB Chair or the designated alternate.

26. There are no other matters relating to the issue of this standard that the NZAuASB considers to be pertinent or that should be drawn to your attention.

Attachments

- Standard
- Certificate of determination
- Draft Consistency accountability statement

Graeme Pinfold
Chair, NZAuASB

XRB | Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

DRAFT Assessment for Consistency Accountability Statement

Reference number	XRB 2026/65
Subject	**Regulatory Standards Act assessment to support Consistency Accountability Statement**
Related to	**Amendments to the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities 2026**
Date of technical board discussion of this assessment	3 December 2026
Approval Date	9 December 2026

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 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.

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. The 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 XRB 2026/65 *Amendments to the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities 2026*.

Summary of this RS Act Assessment

4. The Chief Executive, the responsible Director and the Director's staff have assessed XRB 2026/65 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. XRB 2026/65 is a regulation that amends the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities (**ISA (NZ) for LCE**), a standalone auditing standard. The ISA (NZ) for LCE is available for use by auditors in

specific circumstances where the entity meets the characteristics of a less complex entity, set out in Part A of the ISA (NZ) for LCE.

12. As set out in the standard, the purpose of XRB 2026/65 is to enable auditors to use controls reports as audit evidence in certain circumstances when auditors are using the ISA (NZ) for LCE. This assessment relates to the specific impact of XRB 2026/65.

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.

13. This RS Act Assessment documents our processes and analysis in accordance with the principles. We have evaluated XRB 2026/65 against all principles.

14. 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

15. Section 9(a)(i) states that "the law should be clear and accessible". We have not identified any inconsistencies in XRB 2026/65 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

16. XRB 2026/65 and the basis for conclusions will be published on the Assurance standards page on the XRB's website on the date that it is gazetted.

17. XRB standards are searchable using the XRB Standards Navigator.

Clarity

18. XRB 2026/65 applies to assurance practitioners who audit less complex entities.

19. We consider that XRB 2026/65 fits with the audience's needs because the language and structure are consistent with the standard it amends.

20. XRB 2026/65 introduces requirements and application material into the ISA (NZ) for LCE to address the use of service organisation controls reports as audit evidence. These provisions draw on existing requirements that have been applied by these audit practitioners in ISA (NZ) 402, *Audit Considerations Relating to an Entity Using a Service Organisation*, and have been tailored for audits of less complex entities.

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

21. We have not identified any inconsistencies in XRB 2026/65 with this principle. Consistent with the prohibition on retrospectivity in section 28(2)(b) of the FR Act, XRB 2026/65 does not have retrospective effect.

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

22. We have not identified any inconsistencies in XRB 2026/65 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 XRB 2026/65 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 XRB 2026/65 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 XRB 2026/65 with this principle. XRB 2026/65 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 XRB 2026/65 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 XRB 2026/65 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 XRB 2026/65 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 XRB 2026/65 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. We have not identified any inconsistencies in XRB 2026/65 with this principle. 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".

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 XRB 2026/65

31. XRB 2026/65 will directly and materially affect:

    (a) Assurance practitioners[1] who elect to use the ISA (NZ) for LCE in an audit engagement of a less complex entity where the audited entity uses the services of a service organisation.

32. The issue was identified and consulted on as follows:

    (a) Auditors may obtain type 1 or type 2 controls reports from service organisations and may want to rely on those reports as audit evidence. The current ISA (NZ) for LCE does not fully support that.

    (b) Following the issue of the ISA (NZ) for LCE, auditors told us that the current restriction on using controls reports as audit evidence are a perceived barrier to adopting the ISA (NZ) for LCE. Although these restrictions align with the international standard, New Zealand auditors of LCEs may obtain controls reports from service organisations and wish to use them as audit evidence.

    (c) Responsive to feedback received, the NZAuASB agreed to explore this issue by drafting and issuing an exposure draft that contains targeted and proportionate requirements based on ISA (NZ) 402 *Audit Considerations Relating to an Entity Using a Service Organisation*.

    (d) The consultation was issued in August 2026 and closed on 25 September 2026.

    (e) The consultation document and exposure draft were published on the XRB website and promoted through LinkedIn, the Audit and Assurance Alert, and CA ANZ and Audit Assistant newsletters. Outreach included a walkthrough webcast on YouTube, a virtual deep dive attended by 17 participants, and a community of practice event held on 23 September.

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

[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.

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.

34. We have not identified any inconsistencies in XRB 2026/65 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.

35. Issue identified: The current ISA (NZ) for LCE does not contain the requirements necessary to support an audit approach that uses a type 1 or type 2 controls report as audit evidence. Because the ISA (NZ) for LCE is a standalone auditing standard, an auditor cannot address this limitation by supplementing it with selected requirements from ISA (NZ) 402. Consequently, an auditor wishing to use a controls report as audit evidence may need to conduct the audit using the full suite of ISAs (NZ).

36. This issue has been seen as a perceived barrier to the adoption of the standard by auditors.

37. We are therefore issuing targeted New Zealand amendments to the standard to enable auditors to use controls reports as audit evidence, in certain circumstances, and ensure that the ISA (NZ) for LCE remains fit for purpose in New Zealand.

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.

38. Current legislation and common law do not address the identified issue in the ISA (NZ) for LCE. ISA (NZ) 402 addresses the use of service organisation controls reports in audits conducted under the ISAs (NZ), but its requirements cannot be selectively added to an audit conducted under the standalone ISA (NZ) for LCE. The issue can only be addressed by amending the standard itself.

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.

39. It is in the public interest to issue XRB 2026/65 because of the benefits set out in the appendix. The amendments support the public interest by enabling high-quality, efficient audits of LCEs in New Zealand and removing a perceived barrier to adoption.

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. Non-legislative guidance would not resolve the identified limitation. The ISA (NZ) for LCE is a standalone auditing standard and does not currently contain the requirements needed to support the proposed use of controls reports as audit evidence.

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 XRB 2026/65 is to improve the overall quality of the standard used for conducting audits of financial statements of less complex entities.

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 XRB 2026/65:

    (a) By undertaking implementation activities during the development of the standard. These activities included engagement with stakeholders to understand practical issues arising from the use of service organisation controls reports, publication of a consultation document and exposure draft, a consultation walkthrough webcast, a deep dive event, promotion through the XRB website and LinkedIn, and outreach through professional networks and newsletters

    (b) Following issuance of XRB 2026/65, the XRB intends to communicate the final amendments through its usual assurance communications channels, including publication on the XRB website and Standards Navigator, and communications in the Audit and assurance alert and LinkedIn.

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 XRB 2026/65 appears in Appendix A.

48. We are satisfied that the benefits exceed the costs for the reasons stated in Section D 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 XRB 2026/65 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. XRB 2026/65 provides a targeted response by incorporating the requirements needed to use service organisation controls reports as audit evidence directly into the standalone ISA (NZ) for LCE. It enables auditors to use those reports in the specified circumstances, provided the audit remains eligible for use of the ISA (NZ) for LCE under Part A. Non-legislative guidance would not resolve the absence of authoritative requirements. See also the discussion under S9(j): Evaluation.

52. Issuing XRB 2026/65 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: N/A, this is not a standard from the IAASB

Section C – Domestic benefit-cost considerations

Section D – Overall conclusion

Regulatory Standards Act 2025 – Benefit-cost assessment

Standard Title	**Amendments to the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities 2026 ('the standard')**
Standard Reference	**XRB 2026/65**
Principal Standard / Amendment	**Amending Standard**
Significant impact/ Narrow-scope	**Narrow-Scope**
Impacted entities	**Audit practitioners using the ISA (NZ) for LCE, specifically those who audit less complex entities that use the services of a service organisation.**

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 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.

These amendments are a New Zealand-specific response to feedback on the use of service organisation controls reports under the ISA (NZ) for LCE. Although they draw on established requirements in ISA (NZ) 402, this assessment evaluates the incremental benefits and costs of incorporating tailored requirements into the ISA (NZ) for LCE 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

Not applicable: this assessment concerns New Zealand-specific amendments, rather than the adoption of international amendments.

Section C – Domestic benefit-cost considerations

XRB Domestic Assurance Standards

Without the amendments, the existing ISA (NZ) for LCE would remain available, but the identified limitation on using service organisation controls reports would remain. Auditors wishing to use those reports as audit evidence may therefore need to conduct otherwise eligible audits under the full suite of ISAs (NZ). The assessment compares that position with incorporating tailored requirements into the ISA (NZ) for LCE.

The major expected benefits and costs within the New Zealand context for the standard are as follows.

Qualitative Assessment

Major expected benefits

• **Better reflects the New Zealand environment and promotes consistency in practice**
  ○ Aligns the standard with the audit approach currently in practice in New Zealand
  ○ Enables accessibility and scalability for LCE audits involving service organisations to be performed using the ISA (NZ) for LCE
  ○ Supports consistent application across firms and engagements
• **Supports greater adoption of the ISA (NZ) for LCE**
  ○ Removes a perceived barrier identified
  ○ Increases the circumstances in which the standard can be used
  ○ Supports the objective to provide a proportionate alternative to full ISAs (NZ)
• **Improves audit efficiency without reducing audit quality**
  ○ Allows auditors to use relevant type 1 and type 2 reports as audit evidence where available
  ○ Maintains audit quality

Major expected costs

• **Implementation costs for audit firms**
  ○ Updating methodologies, templates, and guidance
  ○ Training staff on the new requirements
  ○ Adjusting audit documentation
  These are expected to be one-off costs and are not expected to be significant as firms are already familiar with the approach set out in ISA (NZ) 402.
• **Reduced alignment with the international standard**
  ○ New Zealand-specific requirements would differ from the international ISA for LCE
  ○ This may create some issues for firms who use methodology based on the international version

As part of our consultation with New Zealand stakeholders, we asked about the benefits and costs of the standard including whether respondents have any additional comments on the expected benefits and costs of the proposed standard and their impact on New Zealand.

All respondents agreed with the benefits and costs listed in the consultation document. One respondent also identified support for audit quality as an additional benefit and the risk of auditors defaulting to the full ISAs (NZ) as a cost of inaction. Staff consider that these points are already reflected in the identified benefits of improving audit efficiency without reducing audit quality and

supporting greater adoption of the ISA (NZ) for LCE. Therefore no changes were made to the benefits and costs which were consulted on, and are outlined in the RS Act Assessment.

We have considered 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.

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 – 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.

These expected benefits and costs are consistent with the role of auditing and assurance standards in supporting high-quality, efficient audits that enhance the reliability and credibility of financial information for decision-making and accountability purposes.

This analysis and conclusion support the statement in the CAS that we have not identified any inconsistencies in the standard, and the process for developing it, with the principles of responsible regulation.

DRAFT Consistency Accountability Statement:

Amendments to the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities 2026

Agency responsible	External Reporting Board (XRB)
Portfolio	Commerce & Consumer Affairs
Legislative authority to make the secondary legislation	Section 12 of the Financial Reporting Act 2013
Date signed by the Chief Executive	9 December 2026
Identification number	**XRB 2026/65**

I confirm that the XRB has assessed the *Amendments to the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities 2026*, and the process for developing it, for consistency with the principles of responsible regulation as set out in section 9 of the Regulatory Standards Act 2025.

The XRB has not identified any inconsistencies with the principles of responsible regulation.

Add electronic signature

Wendy Venter
Chief Executive
External Reporting Board

XRB | Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

Memorandum

To:	Wendy Venter, Chief Executive External Reporting Board
From:	Graeme Pinfold, Chair NZAuASB
Subject:	**Consistency accountability statement** *Amendments to the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities 2026*
Date:	3 December 2026

☒ **Action Required** ☐ **For Information Purposes Only**

Introduction

1. In accordance with the Regulatory Standards Act 2025, the NZAuASB requests that you make a consistency accountability statement (**CAS**) for Amendments to the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities 2026 ("standard").

Recommendations

2. We recommend that you approve the CAS to accompany the standard. Please keep myself and the XRB Chair informed via email once you are ready to approve the CAS.
3. Once you have approved the CAS, a link to it will be added to the explanatory note of the standard.

Information for your preparation of the CAS

4. We have reviewed the Regulatory Standards (RS) Act assessment and draft CAS prepared by staff and agree with them.
5. We have not identified any inconsistencies with the principles of responsible regulation.
6. We have provided the Certificate Signing Memorandum to the Chair of the External Reporting Board, recommending that the Chair sign the Certificate of Determination, approving the issuance of the standard.

Attachments

- Link to draft CAS
- Link to RS Act Assessment

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NZAuASB Board meeting summary paper

Meeting date:	3 December 2026
Subject:	**Audit Evidence and Risk Response**
Date:	19 November 2026
Prepared by:	Karen Tipper
Reviewed by:	Thinus Peyper

☒ **Action Required** ☐ **For Information Purposes Only**

Agenda item objectives

1. The objective of this agenda item is for the Board to:
   - DISCUSS the issues raised in the issues paper;
   - APPROVE the Audit Evidence and Risk Response submission to the International Auditing and Assurance Standards Board (**IAASB**), and
   - NOTE the Consistency Accountability Statement (**CAS**) file note.

Background

2. At its August meeting, the Board APPROVED the New Zealand consultation document and AGREED that the XRB should seek views on the Audit Evidence and Risk Response proposals.
3. On 5 August 2026, the IAASB issued four exposure drafts:
   - Proposed ISA 330 (Revised) – The Auditor's Responses to Assessed Risks
   - Proposed ISA 500 (Revised) – Audit Evidence
   - Proposed ISA 520 (Revised) – Analytical Procedures
   - Exposure Draft for the audit evidence and risk response project overall (includes proposed conforming and consequential amendments).
4. The XRB published its consultation on 11 August 2026 and notified stakeholders through an Audit and Assurance Alert issued on the same day. This met the Statement of Performance Expectations measure of issuing a domestic consultation within three weeks of the international exposure drafts.
5. At its October meeting, the Board provided initial views on four of the key proposals. These were:
   (a) including the removal of the requirement to test every material balance irrespective of the assessed risk (removal of paragraph 18),
   (b) the introduction of a threshold to investigate difference when performing substantive analytical procedures.

(c) tests of controls alone approval and

(d) the new framework for audit evidence.

These views have been incorporated into the draft submission.

Stakeholder engagement

6. We took the following steps to consult and seek feedback from stakeholders:

   (a) LinkedIn posts in October and November 2026.

   (b) A deep dive webinar explaining the proposals on 6 October 2026.

   (c) A need-to-know webinar on 13 October 2026.

   (d) Meetings with regulators, a user and an audit software provider during October 2026 to obtain feedback.

   (e) Discussions with External Reporting Advisory Panel members on 18 November 2026.

7. We facilitated field testing over three significant proposals in October 2026:

   (a) the removal of paragraph 18 of extant ISA 330;

   (b) the 'tests of controls alone' approach; and

   (c) the attributes of reliability in proposed ISA 500 (Revised).

8. We received one public written submission. This is included in the pack.

Main points of the submission and issues paper

9. The issues paper outlines the results of the outreach performed over the Audit Evidence and Risk Response proposals. It explains the rationale for the draft responses that have been included in the submission and includes all feedback that we have heard from our outreach.

10. The draft submission supports the proposals across ISA 500, ISA 330 and ISA 520, except for the practical implications of the ISA 500 attributes of reliability, as currently drafted.

11. It does not support the attributes as drafted because of concerns about how consistently they can be applied and how scalable they are in practice.

12. The main findings for each standard are summarised below. We ask the Board to focus its discussion on two matters: our recommendation not to support the ISA 500 attributes of reliability as drafted, and our recommendation to support removing ISA 330 paragraph 18 despite concerns raised by regulators.

ISA 500 – Audit Evidence

13. The draft submission supports the concept behind the new framework for audit evidence. The input-audit procedure-output model of information becoming audit evidence resonated with respondents.

14. Respondents supported the concept of the attributes of reliability. In practice, however, feedback indicated that, as drafted, respondents considered that evaluation of the attributes may be treated as a checklist with an expectation that documentation would be required if an attribute were not considered significant. It was noted that these concerns remain despite the proposed application material stating the attributes are not a checklist and that the proposals have no documentation requirement. Given these concerns, the proposals may not be proportionate and could be hard to scale, particularly for smaller practices and less complex audits.

15. The draft submission therefore does not support the attributes of reliability as drafted. It asks the IAASB to retain the extant requirement to evaluate accuracy and completeness for internally generated information, clarify when authenticity needs to be considered, redraft the 'not a checklist' wording, and develop a worked example.

ISA 330 – The Auditor's Responses to Assessed Risks

Removal of paragraph 18

16. Most feedback supported removing paragraph 18, seeing it as a move towards a genuinely risk-based audit.

17. We understand that regulators are concerned that the removal of this paragraph would also remove the safety net that substantive procedures should be performed over all material balances irrespective of the assessed risks of material misstatement. In the case of an imperfect risk assessment, insufficient testing may be performed, with an impact on audit quality.

18. We have considered these viewpoints and, on balance, believe that the stand-back and documentation requirements proposed by the IAASB should address the concerns about removing this paragraph. The draft submission therefore supports removing paragraph 18 and asks the IAASB for additional guidance, including a worked example.

Tests of controls alone

19. The draft submission supports the proposal of allowing a test of controls alone audit approach in limited circumstances. We note that its use in New Zealand may currently be limited. The draft submission also asks the IAASB to add an example to paragraph A52 showing how the inherent risk assessment is made.

ISA 520 – Analytical Procedures

20. The draft submission supports the proposed threshold, not exceeding performance materiality, for investigating differences between the auditor's expectation and the recorded amount. It also supports the new definitions of analytical procedures and substantive analytical procedures, which allow analytical procedures to continue to be used for other purposes, such as risk assessment, without every difference needing to be investigated. The draft submission asks the IAASB to expand the application material on the risk of disaggregation.

Public interest

21. The proposals are consistent with identified strategic priorities, including the role of emerging technologies, and are timely and relevant. However, feedback indicated that the ISA 500 proposals on relevance and reliability may be challenging to apply in a scalable way. The draft submission highlights concerns about the consistency and scalability of the ISA 500 proposals.

Effective date

22. The draft submission supports the proposed effective date of 18 months after the standards are published by the IAASB.

CAS file note

23. The CAS file note illustrates how the developing proposals comply with the requirements of the Regulatory Standards Act 2025. This file note is a living document that will be updated and shared with the Board at each stage of the process.

Recommendations

24. We recommend that the Board discuss the issues raised in the issues paper, approve the draft submission, and note the CAS file note.

Next steps

25. Subject to the Board's approval, staff will make any changes the Board agrees and submit the final submission to the IAASB by its deadline of 15 December 2026.

Material presented

- Board meeting summary paper
- Issues paper
- Draft submission to the IAASB
- CAS file note
- Submissions received

Subject: Audit Evidence and Risk Response — Issues paper

Introduction

1. This paper outlines the key areas for discussion with the Board for the Audit Evidence and Risk Response proposals.
2. Each proposal below is set out in the same three parts: the IAASB proposal, what we heard, and what we recommend. Poll results from the deep dive are summarised in the Appendix.

ISA 500: Audit Evidence

Framework for Audit Evidence including attributes of reliability that are of significance in the circumstances

The proposal

3. ISA 500 has been revised to include a framework for audit evidence. The proposals include that information does not become audit evidence until procedures are performed over this information. The new proposals require that the relevance and reliability of information intended to be used as audit evidence is actively evaluated for all information, not passively considered.
4. In making this evaluation, this proposal would require auditors to consider the source of the information and the attributes of reliability that are of significance in the circumstances to meet the intended purpose of the audit procedures when evaluating the reliability of information intended to be used as audit evidence.
5. Under proposed ISA 500 paragraph 11(b), the attributes considered are accuracy, completeness, authenticity, absence of bias and credibility. There is no specific documentation requirement, and the proposals clarify that the auditor is not required to document the consideration of each attribute.
6. Conforming amendments are also proposed to ISA 200, as follows:

   A24. ~~The auditor may accept records and documents as genuine unless the auditor has reason to believe the contrary. Nevertheless, the auditor is required~~ Proposed ISA 500 (Revised) requires the auditor to ~~consider~~ evaluate the reliability of information intended to be used as audit evidence, which includes procedures to address the authenticity of such information when the auditor considers that the attribute of authenticity is of significance in the circumstances to meet the intended purpose(s) of the audit procedures. Other than performing audit procedures in relation to authenticity when it is of significance in the circumstances and remaining alert throughout the audit for conditions or indications to the contrary, the auditor may consider information, including records or documents, to be authentic. However, ~~I~~in cases of doubt about the reliability of the information ~~or indications of possible fraud (for example~~, if conditions identified during the audit cause the auditor to believe that a record or document may not be authentic or that terms in a document may have been ~~falsified)~~, modified but not disclosed to the auditor, the ISAs require that the auditor investigate further and determine what modifications or additions to audit procedures are necessary to resolve the matter.

What we heard

Conceptually the Audit Evidence Framework is sound

7. All stakeholders supported the concept of the new proposed framework for audit evidence including the revised input-output definition of audit evidence and that information does not

become audit evidence until procedures are applied. This approach resonated with all stakeholders.

8. Feedback supported that conceptually, these proposals are in the public interest as they contribute to greater audit quality and professional scepticism over the source and reliability of information.

9. In support of this, respondents highlighted that the proposals provide a clear framework for articulating a judgement that is broadly consistent with existing audit approaches and methodologies. Explicitly linking the intended purpose of the audit procedure to the attributes of reliability that are significant in the circumstances provides additional clarity, and increased confidence in the evaluations of the relevance and reliability of independently sourced information in the areas tested. The five reliability attributes were seen by some respondents as a useful framework for asking why information can be relied upon. Our deep dive event indicated 95% support for the theory behind identifying attributes of reliability and their focus on the purpose of the procedure.

10. A user of financial statements considered that the attributes were useful given that they are not intended to be exhaustive and that they relate solely to the reliability of information, rather than to the whole audit procedure performed.

11. Practitioners noted that there is no overall example demonstrating the process of turning one piece of information into audit evidence. Such an example may help to clarify the degree of documentation required for the evaluation of relevance and reliability.

Support for accuracy and completeness

12. Two of the attributes, accuracy and completeness, clearly resonated with practitioners. These attributes are currently evaluated for the reliability of internal sources of information. The other attributes of reliability (authenticity, absence of bias and credibility) are currently mostly implicit in current approaches or are considered for accounting estimates.

A need for a trigger for authenticity

13. Practitioners considered that the evaluation of authenticity should be prompted by a trigger, such as fraud risk factors, inherent risk factors, a change in systems, or an unfamiliar counterparty. Without a trigger, auditors were concerned that they may need to explain why they had not considered authenticity for every item, such as a report from a long-standing local bank. It was also argued that authenticity cannot realistically be audited without a reason to suspect a problem.

14. One respondent noted a risk that auditors may adopt a default mindset of considering authenticity, even though auditors are not forensic accountants. Regulatory interpretation of authenticity may be challenging in practice and, if a public case arose, audit costs could increase significantly. They indicated that guidance would be needed to address the risk of over auditing.

15. Other feedback indicated that authenticity is a worthwhile addition, provided proportionality is prominent. An example was provided to illustrate the benefit of this, namely a refinancing agreement central to going concern may justify direct confirmation with the lender, whereas information obtained directly from an official central-bank source ordinarily would not justify the same work effort. The objective and intent of the procedure should be an increase of professional scepticism where authenticity is a genuine concern.

Risk that the attributes become a checklist

16. Practitioners shared a concern that the five attributes will become a checklist, and that not considering one of them may be raised as an issue in a quality review. Practitioners did not consider stating that the attributes are not intended to be a checklist addresses this concern.

Contrarily, they considered that this statement may in fact increase the inclination to treat the attributes as a checklist.

17. The current drafting could easily be transposed into five points to evaluate and there is a risk that these may become five different points that are all required to be considered and this would be contrary to the intended exercise of professional judgement.

Risk of inconsistency in judging what is of significance in the circumstances

18. We heard that the phrase 'of significance in the circumstances' needs greater clarity to consistently determine if an attribute is of significance.

19. The assessment is highly subjective and may be influenced by personal experience and recent events. For example, if completeness had been an issue on a recent engagement, the auditor may be inclined to select completeness on another engagement. Reviewers may also have unconscious bias about relevance and reliability based on previous experience that may affect their judgement. This risks inconsistent application, and the requirement could therefore be disproportionate and difficult to scale.

Risk of a significant increase in work effort and lack of scalability

20. Concerns were raised that the requirement to evaluate the relevance and reliability of all information intended to be used as audit evidence would result in a significant increase in work effort especially given the volume of audit evidence on an audit file. Feedback indicated that, if this was not the IAASB's intent, the revisions should be reconsidered and clarified.

21. The scalability and proportionality of the proposals were questioned, including for audits of smaller or less complex entities. Audit files hold a significant amount of evidence, and participants were unclear about how much they would need to document about how they had identified which attributes were significant and why, given that the proposals have no specific documentation requirement.

22. One respondent saw the impact of the proposals as greater clarity and structure in the auditor's judgement, rather than a significant change in the audit procedures performed, given that accuracy and completeness procedures are already performed.

Drafting points

23. Feedback highlighted the volume of application material needed to explain a relatively short requirement to evaluate the relevance and reliability of information to be used as audit evidence. A viewpoint was expressed that clearly drafted requirements should not need lengthy application material to explain how an auditor should apply them.

Additional examples were requested

24. We heard requests for further guidance, including more examples of how to assess which attributes matter most. Some saw value in a clear documentation requirement, for example documenting only the attributes selected and why, or documenting those not selected with an explanation. However, it was also noted that such a requirement could become extensive and lead to increased work effort without a corresponding benefit, for example if the auditor were required to document why a particular attribute had not been considered.

25. Additional practical examples requested included:

- how source and credibility interact and when consideration of the source may already address credibility;
- when authenticity should be identified as significant before any specific doubt arises;
- how absence of bias applies beyond traditional management-bias considerations;
- contrasting examples of routine information versus critical information;

- examples involving entity-produced versus external information;
- examples showing the judgement process of evaluating when an attribute is relevant but not of significance;
- examples showing when an attribute that is of significance has already been addressed through the audit procedure and no additional reliability work is necessary; and
- examples of proportionate documentation.

What we recommend

26. We recommend that the draft submission support the conceptual framework for audit evidence. The input-output model of turning information into audit evidence is conceptually sound and the theory behind the proposals resonates.

27. We recommend that the draft submission support retaining the extant requirement to evaluate accuracy and completeness for internally generated information. This is consistent with extant practice and is routinely evaluated by auditors.

28. We recommend that the draft submission recommend that the proposals related to attributes of reliability evaluations be redrafted. As drafted, we believe that these proposals could be treated as a checklist and therefore the expectation would be that the auditor would need to include consideration of each attribute and why they did not consider them to be significant in the circumstances. This could lead to an increase in work effort with limited value.

29. We recommend the draft submission request that additional examples be included to support the new requirement. These should cover an example of how judgement is applied in practice to determine which attribute is significant in a particular circumstance.

30. We recommend that the draft submission recommend that the application material in ISA 500 be reframed to include the trigger for authenticity outlined in paragraph A50 to be included as one of the first points under the Authenticity application material. This recommendation is made to highlight the importance of the need for a trigger to evaluate authenticity, and that it does not need to be evaluated for every piece of information. This application material could refer to ISA 200.

ISA 330: The Auditor's Responses to Assessed Risks

Proposal: Material classes of transactions, account balances and disclosures that are not significant (removal of paragraph 18)

The proposal

31. The IAASB is proposing to remove extant ISA 330 paragraph 18, which requires substantive procedures for each material class of transactions, account balance and disclosure irrespective of the assessed risks of material misstatement, and to make conforming and consequential amendments to ISA 315. These amendments include additional application material to support the determination of whether a material class of transactions, account balance or disclosure is significant, and a requirement to document the basis for determining that it is not significant. ISA 315 paragraph 36 requires the auditor to evaluate whether that determination remains appropriate.

What we heard

Practitioner excitement for a genuinely risk-based audit

32. We heard support from all practitioners, audit software providers and users that we spoke to for removing this requirement. Respondents described this as a welcome move towards a

genuinely risk-based audit where work is performed over material balances with regard to the assessed risks in the balances.

33. One user emphasised that the audit ultimately comes down to risk assessment and, importantly, identifying the appropriate risks in the first place, focussing the audit work on those risks and performing appropriate procedures to address them and identifying any material misstatements, rather than performing procedures over areas where no risk of material misstatement had been identified.

Increased focus on risk assessment

34. Some practitioners commented that material balances that are not significant are rare today. Given the requirement to perform procedures over all material balances, there may be an inclination to identify a risk of material misstatement within a balance purely for the purpose of designing a procedure to address that risk. There may or may not be an actual risk within this balance.

35. Practitioners considered that, if this proposal were to be adopted, it may lead to continual improvement of risk assessment procedures and potentially a more detailed risk assessment and consideration and justification when no risk was identified on a material balance and therefore why no testing is required. Practitioners identified that work effort may shift from testing to risk assessment.

36. As an alternative, one participant suggested a rebuttable presumption rather than removing the paragraph entirely. This was recommended as a stepping stone approach to provide a prompt to consider whether further testing is required.

The regulator has significant concerns about removing paragraph 18

37. We understand that the regulator is concerned about the proposed removal of paragraph 18. If a risk of material misstatement is not identified within a material class of transactions, account balance or disclosure, paragraph 18 currently provides a safeguard by requiring substantive procedures to be performed over that material area irrespective of the assessed risks.

38. Without this requirement, deficiencies in the auditor's risk assessment could result in insufficient audit work being performed over a material area. If a material misstatement were subsequently identified in an area over which little or no audit work had been performed, this could be difficult to reconcile with stakeholders' expectations of an audit and could undermine trust and confidence in audit quality.

39. We also understand that the regulator considers that it is harder raise inspection findings against risk assessment judgements than against the extant requirement in paragraph 18.

Documentation requirements

40. Documentation was identified as the main challenge in the removal of this requirement and what sufficient documentation would look like. It was noted that currently reviews may not focus on risk assessment and this may need to change. Drivers for low risk would need to be considered and by itself it was noted that a balance that has not moved year on year does not by itself indicate low risk.

41. It was noted that the proposal does not explicitly state that nothing further is required when no risk is identified. Participants indicated that a clear statement of the outcome, or of any minimum procedures still expected would be useful.

Requests for guidance

42. Consistency in applying the requirements across audit files was raised, as application may depend on the entity and the balance. Worked examples would help with consistency and act

as a benchmark for good documentation "grading rubric" for what good documentation looks like.

43. Stakeholders requested additional guidance, including:

- factors and criteria to consider;
- examples of proportionate documentation; and
- a worked example for a normal transaction, similar to the IAASB example for ISA 540 (Revised) on estimates.

What we recommend

44. We recommend that the submission support this proposal. We note the strong support for a move to a genuinely risk-based audit that is aligned with the requirements of ISA 315.

45. We acknowledge the concerns about a risk of material misstatement not being identified within a balance and then not being detected. We believe that the additional stand-back and documentation paragraphs that are proposed to be included in ISA 315 together with the proposed removal of paragraph 18 should address this risk as the auditor is required to reconsider whether they have appropriately identified all risks of material misstatement in material balances and document this.

46. We acknowledge the regulator's concerns. We have looked at publicly available monitoring reports from a number of regulators and highlight the 2024 Canadian Public Accountability Board report on identifying and assessing risks of material misstatements, that includes their observations on risk assessment judgements.

47. We acknowledge that ISA 315 is still subject to a post-implementation review (PIR), which is expected to be completed in 2027. In the submission, we will encourage the IAASB to consider any relevant feedback from the PIR on the conforming amendments to ISA 315 proposed as part of these revisions.

48. We recommend that the submission request the additional guidance, including a worked example similar to the IAASB example for ISA 540 (Revised) on accounting estimates.

Proposal: Tests of controls alone

The proposal

49. Extant ISA 330 paragraph 18 does not prohibit tests of controls alone at the assertion level, but its requirement for substantive procedures prevents that approach being applied to an entire material class of transactions, account balance or disclosure.

50. As such, alongside the removal of extant paragraph 18, the IAASB proposes to introduce ISA 330 paragraph 16, supported by application material in paragraph A52. A tests of controls alone approach would be subject to two conditions: inherent risk is not assessed at the higher end of the spectrum of inherent risk; and the auditor's expectation about the operating effectiveness of controls addressing the risk is such that the risk of material misstatement at the assertion level is reduced to an acceptably low level.

What we heard

51. Practitioners supported the option of a tests of controls only approach. It allows a controls only approach in certain circumstances and it provides the auditors with more choice.

52. This approach would require a mindset shift, and some practitioners expected there to be little use in current practice in the near term. Use of this proposal would depend on whether the client has a robust control environment. Currently, substantive testing is the default in the New Zealand market. Where controls testing is performed, it is usually for significant risks, so it may be hard to find areas where the risk is low enough to rely on controls alone.

53. We heard that this approach may be appropriate or necessary where substantive procedures alone cannot provide sufficient appropriate audit evidence or are not practicable, such as where the entire process is automated. Respondents agreed with the proposed criteria, found the application material on the precision of controls helpful, and agreed that controls must be tested in the current period where a controls-alone approach is taken. They also supported the clarification on indirect controls, including general IT controls, and the guidance on emerging technologies

54. A user supported the tests of controls only approach where there is a low risk of material misstatement but considered that, where the risk is higher, auditors should obtain a greater understanding. An audit software provider also supported the proposal.

55. One respondent supported stronger controls work where it produces better evidence, but considered the proposals should not imply that a controls-based audit is inherently superior. Controls alone may be credible for particular assertions within mature automated environments, whereas for owner-managed SMEs with informal controls, substantive procedures may remain more effective and persuasive. They also considered that 'impracticability' needs clearer boundaries, so that it does not become synonymous with a substantive approach being less efficient or more costly and inadvertently create a regulatory expectation towards controls testing.

56. Practitioners raised that a controls-based approach would not necessarily save time. Information used in controls testing must itself be tested, and new technology and the increased use of AI auditing tools may actually make substantive testing more efficient to perform by focussing testing on identified anomalies.

57. We heard questions about how much documentation is required to illustrate that the risk has been addressed through controls testing. Additional clarity was sought on whether particular forms of testing are expected (for example, re-performance versus inspection) and whether greater emphasis should be placed on testing the reliability of information used in the operation of the control.

58. One stakeholder felt that, while it is clear conceptually when a tests of controls only approach may be considered, it is not clear how the conditions in paragraph 16(a) and (b) are expected to be applied in practice, particularly in relation to: (a) how judgements on inherent risk are made (paragraph A52 needs more on how to form a judgement on inherent risk); and (b) the nature and extent of the controls testing necessary to conclude that the risk of material misstatement has been reduced to an acceptably low level.

59. Concerns were raised that the proposed changes, which would not allow prior year testing of manual controls to be used in subsequent years, may result in an increase in work effort.

60. More guidance or examples were requested, including an illustration of circumstances in which a controls-only approach would, and would not, generally be appropriate (for example, highly repetitive and standardised transaction streams compared with transactions involving greater estimation uncertainty or judgement). Clarification was also sought on whether a controls-only approach would imply more extensive testing of controls than would otherwise be performed.

61. Benefits of allowing this approach may be to provide more value to entities. Audit committees often push auditors towards controls-based approaches and observations from controls testing can be useful feedback for management and governance. Few New Zealand audits use a controls-based approach, possibly because of the quality of entity controls or because auditors are used to substantive testing.

What we recommend

62. We recommend that the submission support this proposal, while noting that its use in practice may currently be limited.

63. We recommend that paragraph A52 be expanded to include an example illustrating how factors such as the nature and complexity of the transaction stream, the degree of judgement involved, susceptibility to error or fraud, the level of automation and the predictability of processing influence the inherent risk assessment.

ISA 520: Analytical Procedures

Proposal: Introduction of a threshold to identify fluctuations for substantive analytical procedures

The proposal

64. The IAASB is proposing to introduce a threshold, not exceeding performance materiality, for investigating differences between the auditor's expected amount and the recorded amount. This proposal relates solely to substantive analytical procedures, which are designed to detect material misstatement.

65. A new definition of substantive analytical procedures and a revised definition of analytical procedures are also proposed as follows:

    a. *Substantive analytical procedure – a substantive procedure that involves a comparison of sufficiently precise expectation developed by the auditor, based on one or more plausible and predictable relationships among financial information, non-financial information, or both to recorded amounts (or amounts derived from recorded amounts) to detect a material misstatement.*

    b. *Analytical procedures – a type of audit procedure that involves an evaluation of financial information through analysis of plausible relationships among financial information, non-financial information, or both.*

What we heard

66. We heard that practitioners considered that the proposals provide a stronger framework for substantive analytical procedures. Most feedback, including the regulator, indicated support for the proposed approach. As the revised definition proposes that substantive analytical procedures are performed to detect a material misstatement, stakeholders considered performance materiality to be an appropriate upper limit for the threshold for investigating differences. Some respondents did note that a lower amount, as acknowledged by the proposals, may be appropriate in some circumstances.

67. Practitioners raised the interaction between the threshold and a percentage-based assessment when a balance is many times materiality. For example, when a substantive analytical procedure is applied to a revenue stream, a difference may be described as only a 1% difference and therefore currently be accepted without further work, even though the amount may be significant relative to materiality and whether or how the threshold applies in this situation. Under these new proposals this procedure could be performed as an analytical procedure, but it would not meet the definition of a substantive analytical procedure by itself as it would not detect a material misstatement.

68. Participants also highlighted the benefits of other analytical procedures, such as those performed for risk assessment purposes, which often identify differences larger than performance materiality. Under these proposals, these procedures would fall under the revised definition of analytical procedures, under which differences are not required to be investigated, because they are not intended to detect a material misstatement.

69. Some feedback raised concerns that the proposals do not adequately consider technology. Advances in technology provide new approaches to analytical procedures, and ISA 520, along with additional guidance, should address this.

Disaggregation of balances

70. One respondent noted that the proposals should clarify that an auditor should consider whether or not a balance is disaggregated when they set a threshold. The level of disaggregation was challenged. Some participants were concerned that, depending on the level to which a balance is disaggregated, differences could always fall within the performance materiality threshold.

71. We heard concerns about how far balances or populations could be disaggregated when designing substantive analytical procedures or other testing, particularly where aggregation could mean that individual variances remain below performance materiality. It was noted that the proposals should consider disaggregation to eliminate the possibility that differences could always fall within a threshold of materiality if the balance was disaggregated.

What we recommend

72. We recommend that the submission support this proposal and the new definitions of analytical procedures and substantive analytical procedures.

73. We consider that these definitions allow for the continued use of analytical procedures for other purposes, such as risk assessment.

74. We acknowledge the points raised about disaggregation. The proposed application material relevant to the auditor's determination of expected amount does include that the auditor may consider the level of disaggregation. We consider that this should address the concern raised by stakeholders.

Public interest responsiveness of the proposals

75. The proposals are consistent with identified strategic priorities, including the role of emerging technologies, and are timely and relevant. However, feedback indicated that the proposals on evaluating the relevance and reliability of audit evidence may be challenging to apply in a scalable way.

76. One professional body considered that standard setters should set guard rails for practitioners to operate within, as principles are open to interpretation.

77. One audit software provider agreed that there should be no mandatory requirement to use technological tools, with the emphasis instead on providing useful guidance. This is consistent with the deep dive poll, in which 65% of respondents agreed that there is no need for such a requirement (see Appendix).

78. One respondent considered that the consultation document may understate the additional work effort by describing it as arising only in some audits; in their view, additional work is likely on most audits. They requested implementation support, including examples showing how requirements can be scaled down for smaller and less complex engagements, noting that scaling down the nature and extent of audit work is often more challenging than scaling it up.

79. One respondent supported the public interest direction of the project but questioned whether parts of the proposed architecture are more complex than necessary, and whether the additional work effort will deliver a commensurate improvement in audit quality, particularly for smaller practices auditing less complex entities. In their view, additional effort is justified where it produces a stronger risk assessment, more reliable evidence or a better audit response, but the benefit is less clear where the main outcome is more process or

documentation. They were concerned that sound principles could become increasingly prescriptive once translated into methodologies and inspection expectations and considered that the standards should be ‘practice-informed but not practice-bound’.

80. The same respondent considered technology guidance useful but that it should remain technology neutral and capable of being updated, addressing matters such as data extraction, Excel and standard audit software, complete-population testing, third-party tools and emerging AI-enabled tools. Sophisticated technology should not become an implicit benchmark for audit quality.

What we recommend

81. We recommend that the submission highlight concerns about the consistency and scalability of the ISA 500 proposals, as set out in our ISA 500 recommendations above.

Effective Date

Proposal

82. The IAASB is proposing that the effective date for the new standards be 18 months after they are published.

What we heard

83. One stakeholder raised that an effective date of 24 months from the date of issue may be more practicable as practitioners and national standard setters may benefit from more lead in time, due to the revisions to three significant standards and the consequential amendments to other standards. In particular, the changes to audit evidence are pervasive and will affect audit work throughout the audit, requiring broader changes to methodologies, tools, templates and training.

What we recommend

84. We recommend that the submission support the IAASB's proposed 18-month effective date.

85. We also recommend that the submission not support the attributes of reliability proposals as drafted. If those proposals are redrafted, the changes needed to methodologies may be smaller and therefore address the concerns raised about the time needed to update methodologies, tools and templates.

86. Given the interconnected nature of these standards and the conforming amendments across the ISA suite, we support the same effective date for all three standards.

Appendix: Poll Results from the Deep Dive on 6 October 2026

46 people attended the deep dive, and not all attendees responded to all polls.

Area	Question asked	Yes	No	Yes %
Technology	Do you agree that there is no need for a requirement for when an auditor must use technological tools?	15	8	65%
ISA 500: Attributes of significance	Does focussing on the purpose of the procedure resonate?	19	1	95%
ISA 500: Attributes of significance	Is the work effort clear between considering and evaluating the attributes of significance?	12	8	60%
ISA 500: Attributes of significance	Are these proposals clear and do you consider that they can be applied in a scalable, proportional way?	13	7	65%
ISA 330 - Remove mandatory substantive procedures	Do you support the removal of the requirement to perform substantive procedures on all material COTABDs regardless of the assessed risk of material misstatement?	17	6	74%
ISA 330 Tests of Controls-only approach	Do you support a test of controls only approach in limited circumstances?	19	0	100%
ISA 330 Test of controls only	Do you support the conditions when this can apply?	19	0	100%
Benefits/costs assessment	Do you agree with our assessment of identified benefits and costs?	14	0	100%
Compelling reason change to reference those charged with governance	Do you agree with the compelling reason change?	13	1	93%
Further NZ changes	Are there any further compelling reason changes the XRB should make in New Zealand?	2	9	18%

REQUEST FOR COMMENTS

EXPOSURE DRAFTS ISSUED AS PART OF THE AUDIT EVIDENCE AND RISK RESPONSE (AE&RR) PROJECT

Guide for Respondents

Comments are requested by **December 15, 2026**. *Requests for extensions of time cannot be accommodated due to the timeline for finalization of the proposed revised standards.*

This form contains all questions presented within the four Explanatory Memorandums (EMs) that accompany the Exposure Drafts (ED) of:

- The Audit Evidence and Risk Response project overall (ED–AE&RR)
- Proposed International Standard on Auditing ™ (ISA) 330 (Revised), *The Auditor's Responses to Assessed Risks* (ED–330),
- Proposed ISA 500 (Revised), *Audit Evidence* (ED–500 (2026)), and
- Proposed ISA 520 (Revised), *Analytical Procedures* (ED–520).

Using the response form facilitates consistency in the structure of responses received from all our stakeholders, which assists us greatly in the timely and effective analysis of the responses.

You may respond to all questions or only those questions for which you have specific comments. All responses will be considered a matter of public record and will ultimately be posted on the IAASB website.

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

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

Audit Evidence and Risk Response Project – Response Form

August 2026

It is not necessary to include a cover letter containing a summary of your key issues. This form includes a section for respondent details, demographics, and other comments, providing the opportunity to include any other views you wish to place on the public record, should you choose to do so.

The completed Response Form can be uploaded using the "**Submit Comment**" link.

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Respondent Details, Demographic and Other Information

Your organization's name (or your name if you are making a submission in your personal capacity)	External Reporting Board
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	New Zealand Auditing and Assurance Standards Board (NZAuASB)
Name(s) of contact(s) for this submission (or leave blank if the same as above)	Karen Tipper
E-mail address(es) of contact(s)	Karen.tipper@xrb.govt.nz
Geographical profile that best represents the perspective from which are you providing feedback on the EDs. Please select the most appropriate option.	Asia Pacific
	If "Other", please clarify
Stakeholder group that best represents the perspective from which are you providing feedback on the EDs. Please select the most appropriate option.	Jurisdictional or other standard setter
	If "Other", please specify
Should you choose to do so, you may include information about your organization or yourself, as applicable.	

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Optional Information on Field Testing

The IAASB recognizes the foundational nature of the standards addressed by the Audit Evidence and Risk Response project which are core to an audit of financial statements for entities of all sizes and complexities. Therefore, ED–330, ED–500 (2026) and ED–520 will likely be of particular interest for all audit practitioners and firms, regardless of size. Accordingly, the IAASB encourages field testing of the proposals and welcomes the sharing of the results of any field testing performed with the IAASB as part of the responses to these EDs. Note that field testing is not required in order to respond to the questions in this form.

Did you undertake field testing to inform your responses?

If so, please:

(a) Provide a brief description of the field testing performed, including any specific areas of focus; and

(b) Indicate which questions in this Response Form have been informed by the results of the field testing performed (e.g., "Part B, questions 5(a) and (b)" or "Part C, question 4(a)", etc.).

Overall response: Yes, we undertook field testing. See comments below.

Further information:

We facilitated field testing over the following proposals:

- Proposals to amend ISA 330 to make explicit that a controls alone approach can be followed in certain circumstances (Part B, questions 5(a) and (b)).
- Removal of paragraph 18 and the requirement to perform substantive procedures on all material balances, irrespective of the risk of material misstatement (Part B Question 3).
- ISA 500: Proposals to consider the attributes of reliability that are of significance in the circumstances when evaluating the reliability of information intended to be used as audit evidence (Part C, question 4(a)).

We have included specific comments under the relevant questions.

Any Other Matters

The IAASB's preference is that you incorporate all your views in your comments to the questions. Each **Part** of this form includes a question that specifically asks about any other matters you may wish to raise in relation to each ED.

However, should you choose to do so, you may provide further views or additional background to your submission in the field below. **This is optional**.

Information (if any) not already included in responding to the questions in Parts A–D:

Click or tap here to enter text.

PART A: Responses to Questions Related to ED–AE&RR

This section contains the questions from the EM accompanying ED–AE&RR.

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

Overall Questions

Public Interest Responsiveness of the Proposals

1. Do you agree that the proposals reflected in ED–330, ED–500 (2026) and ED–520 appropriately address the standard-setting actions as set out in the **Supplement** to this EM? (Those standard-setting actions are linked to relevant qualitative characteristics of the Public Interest Framework and the project objectives in the project proposal.)

   You are invited to include as part of your response insights on the **possible or expected impacts** (positive or negative) of implementing the proposed standards. Alternatively, you may choose to highlight such impacts as part of your responses to individual questions in the EMs to ED–330, ED–500 (2026) and ED–520.

   (Ref: EM to ED–AE&RR: Sections 1–A, 1–B, and the ***Supplement****)*

Overall response **Agree, with comments below.**

Detailed comments (if any):

We agree that the proposals appropriately address the standard-setting actions. We support the principles-based approach to technology in the requirements. It is applied consistently across all the proposals and keeps the standards future-proof and fit for purpose.

We are excited about the move to a genuinely risk-based audit and the associated removal of paragraph 18.

To enable us to understand how these proposals may be implemented and any practical implications of this, we have facilitated field testing over three proposals including the proposals on paragraph 11 of ISA 500 to evaluate the attributes of significant.

We have heard concerns about scalability, proportionality, consistency and increased work effort of the proposals in ISA 500, as drafted. We recommend that the drafting of these proposals be reconsidered and we address this further in the response to Part C, question 4 (a).

Professional Skepticism and Professional Judgment

2. Do the requirements and application material in ED–330, ED–500 (2026) and ED–520 appropriately reinforce the exercise of professional skepticism in obtaining and evaluating audit evidence and responding to ROMMs?

   (Ref: EM to ED–AE&RR: Section 1–C)

Overall response: Yes, with comments below.

Detailed comments (if any):

We agree that the proposals reinforce the exercise of professional scepticism and align with the risk-based audit approach. The proposals include amendments to ISA 315, including a new documentation requirement, before the ISA 315 post-implementation review (PIR) is complete. If timelines allow, we recommend that the IAASB consider any relevant PIR feedback before finalising these revisions.

Specific Questions – Conforming and Consequential Amendments

3. Do you support the technology-related amendments to ISQM 1 and ISA 220 (Revised)? In particular, please share your views on whether you support the term "technological tools" as a replacement for the term "automated tools and techniques" and the description for technological tools.

   (Ref: EM to ED–AE&RR: Section 1–D, Paragraphs. 60–65)

Overall response: Yes, with comments below.

Detailed comments (if any):

- We support the technology-related amendments to ISQM 1 and ISA 220 (Revised), including the use of the term "technological tools" as a replacement for "automated tools and techniques" to future proof the standards.
- We note that the examples of technological tools used directly by engagement teams in ISQM 1 A99A do not include freely available generative AI. There is a current risk that engagement teams use these tools without understanding their impact, and we encourage the IAASB to address this in the examples.

4. Do you agree with the repositioning of the overall conclusion on the sufficiency and appropriateness of audit evidence obtained from paragraph 26 of extant ISA 330, into paragraph 11A of ISA 700 (Revised)?

   (Ref: EM to ED–AE&RR: Section 1–D, Paragraphs 67–73)

Overall response: Agree, with comments below.

Detailed comments (if any):

- We agree with repositioning the overall conclusion on the sufficiency and appropriateness of audit evidence from paragraph 26 of extant ISA 330 into paragraph 11A of ISA 700 (Revised). Linking this conclusion to ISA 700 (Revised) positions it as a stand-back that covers all audit evidence obtained across the audit as a whole.

5.	Do you support the conforming and consequential amendment to paragraph A24 of ISA 200? *(Ref: EM to ED–AE&RR: Section 1–D, Paragraphs 74–78)*

Overall response: Yes, with comments below.

Detailed comments (if any):

The proposals to ISA 200 A24 allow the auditor to accept records and documents as genuine unless the auditor has reason to believe the contrary. We support this conforming amendment. We recommend that the application material in ISA 500 on authenticity (paragraph A50) is reframed so that the trigger for evaluating authenticity appears as one of its first points, with a reference to ISA 200 A24. This would make clear that authenticity does not need to be evaluated for every piece of information.

Any Other Matters

6.	Are there any other matters you would like to raise in relation to the conforming and consequential amendments to the ISQMs and other ISAs? If so, please clearly indicate the ISQM, or ISA requirement(s) or application material, or the theme or topic, to which your comment(s) relates.

Overall response: Yes. See further comments below.

Detailed comments (if any):

We recommend that the IAASB consider amending ISA 402 to reflect its interaction with paragraph 13(a) of ISA 500. The interaction arises when the auditor identifies controls, and tests their operating effectiveness, at a service organization that address the evaluation of the reliability of information intended to be used as audit evidence.

General Matters

Translations

7.	Recognizing that many respondents may intend to translate the final standards for adoption in their own environments, have you identified any potential translation challenges or issues? If so, please describe the issue identified and clearly indicate the specific standards, paragraph numbers of any requirements, application material, or appendices to which your comments relate.

Overall response: No response

Detailed comments (if any):

Click or tap here to enter text.

Effective Date

8.	Given the need for national due process and translation, the IAASB believes that an appropriate effective date for the standards would be at least 18 months after the expected date of approval of the proposed revised standards. Do you agree that this will provide a sufficient period to support effective implementation of the proposed standards? If not, what do you propose and why? (*Ref: EM to ED-AE&RR: Section 1-E, Paragraphs 79–80*)

Overall response: <u>Agree, with comments below.</u>

Detailed comments (if any):

We agree that an effective date of 18 months after the proposed revised standards is sufficient to support effective implementation, given the significance of the changes and their impact across multiple standards, including conforming amendments to ISA 315 and ISA 700.

As these revisions impact ISA 330, ISA 500 and ISA 520 and there are conforming amendments to a number of other standards, it should be clearly indicated that these three standards should be implemented simultaneously and that one standard should not be allowed to be adopted without adoption of the other two.

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PART B: Responses to Questions Related to ED–330

This section contains the questions from the EM accompanying ED–330.

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

Enhancing the Alignment with ISA 315 (Revised 2019)

1 Do you agree that the collective revisions to the requirements and application material reflected in ED–330 enhance alignment with concepts and principles addressed in ISA 315 (Revised 2019), including for terminology related matters**?**

(Ref: EM to ED–330: Section 1–A, Paragraphs 3–6)

Overall response: Agree, with comments below.

Detailed comments (if any):

We agree that the proposals enhance alignment with ISA 315 and create a more robust and logical audit genuinely risk-based audit process running from risk assessment through to risk response.. We note that ISA 315 has not yet been through a completed post-implementation review (PIR), and we recommend that any feedback obtained during the ISA 315 PIR process be considered before these revisions are finalised.

Definitions

2. Do you support the revised and new definitions for:

(a) Substantive procedures?

(Ref: EM to ED–330: Section 1–B, Paragraphs 7–10)

Overall response: Yes, with comments below.

Detailed comments (if any):

We support the proposal to future proof the definition and to recognize that substantive procedures include tests of details or substantive analytical procedures.

(b) Tests of controls?

(Ref: EM to ED–330: Section 1–B, Paragraphs 11–12)

Overall response: Yes, with comments below.

Detailed comments (if any):

We support the emphasis that the purpose of the procedure is to obtain audit evidence, and the link to risk assessment. We also support making explicit that a tests of controls alone approach may be appropriate in limited circumstances

(c) Tests of details?

(Ref: EM to ED–330: Section 1–B, Paragraphs 13–17)

Overall response: Yes. No further comments.

Detailed comments (if any):

Click or tap here to enter text.

Reinforcing the Concept of a Risk-Based Audit

3. Do you support removing paragraph 18 of extant ISA 330 (and the related application material in paragraphs A43–A44) and replacing it with strengthened requirements and application material in ISA 315 (Revised 2019)? Please also include any views you may have regarding the options that the Board deliberated in addressing this matter (see paragraphs 30-33 of **Section 1-C** of EM to *ED–330*).

(Ref: EM to ED–330: Section 1–C, Paragraphs 18–37)

Overall response: Yes, with comments below.

Detailed comments (if any):
We support removing paragraph 18 of extant ISA 330 and replacing it with strengthened requirements and application material in ISA 315 (Revised 2019.

We facilitated field testing over the removal of this requirement.

Practitioners were excited about the proposals to move to a genuinely risk-based audit. They identified that, with testing focused on areas with identified risks of material misstatement, the focus will shift from substantive procedures to risk assessment procedures.

We consider that the proposed stand-back and documentation requirements in ISA 315, which require the auditor to reconsider whether all risks of material misstatement in material balances have been identified, address this risk. We ask the IAASB to make clear what is expected when no risk of material misstatement is identified in a material balance.

Substantive Procedures

4. For substantive procedures, do you support:

(a) The new baseline requirement for designing and performing substantive procedures in paragraph 9 of ED–330?

(Ref: EM to ED–330: Section 1–D, Paragraph 38)

Overall response: Yes, with comments below.

Detailed comments (if any):

We support this proposal but acknowledge that this is contingent on the IAASB approving the associated proposal to permit a test of controls alone approach in limited circumstances.

(b) Retaining the approach from extant ISA 330 that when the auditor's approach to a significant risk consists only of substantive procedures, those procedures shall include tests of details on the basis that substantive analytical procedures are insufficient by themselves to provide sufficient appropriate evidence to respond to a significant risk?

(Ref: EM to ED–330: Section 1–D, Paragraphs 39–44)

Overall response: Yes. No further comments.

Detailed comments (if any):

Click or tap here to enter text.

Tests of Controls

5. For tests of controls, do you support the following proposals in ED–330:

(a) The principle reflected in the conditional requirement in paragraph 16 of ED–330 that makes explicit the possibility of performing tests of control alone to address ROMMs at the assertion level?

(Ref: EM to ED–330: Section 1–E, Paragraphs 49–56)

Overall response: Yes, with comments below.

Detailed comments (if any):

We support this proposal to allow the option for a tests of controls alone approach in the identified limited circumstances. We consider that this could be more persuasive audit evidence for certain industries such as banking where there are robust control environments and a reliance on automated controls, but we caution against a suggestion that evidence from controls testing is always more persuasive.

(b) The circumstances in which a "tests of controls alone" approach (see (a) above) is appropriate, including the criteria (see paragraphs 16 (a) and (b), 20, and the related application material) for such an approach?

(Ref: EM to ED–330: Section 1–E, Paragraphs 49–56)

Overall response: Yes, with comments below.

Detailed comments (if any):

We support this proposal and the choice it provides auditors. Use of this proposal is expected to be fairly limited in the near term as it may be more time-effective to continue with substantive procedures. Substantive testing is currently the default approach in the New Zealand market.

We heard that the approach may be used where the client has a robust control environment, and in highly automated environments where substantive procedures alone cannot provide sufficient appropriate audit evidence or are not practicable. Feedback indicated that it may be less effective for owner-managed SMEs with informal controls, where substantive procedures may remain more persuasive.

We recommend that the application material in paragraph A52 be expanded to include an example illustrating how factors such as the nature and complexity of the transaction stream, the degree of judgement involved, susceptibility to error or fraud, the level of automation and the predictability of processing influence the inherent risk assessment.

We also recommend that the IAASB provide further guidance or examples on: (a) the nature and extent of controls testing needed to conclude that the risk of material misstatement at the assertion level has been reduced to an acceptably low level, including whether a tests of controls alone approach implies more extensive testing than would otherwise be performed; (b) whether particular forms of testing are expected (for example, re-performance rather than inspection of sign-offs) and the emphasis to be placed on testing the reliability of information used in the operation of the control; and (c) how much documentation is sufficient to demonstrate that the risk has been addressed through controls alone.

(c) Indirect controls, including the Board's position that "controls" in paragraph 17 of ED–330 already include indirect controls when necessary, and the application material that has been added to clarify the auditor's approach to indirect controls (including GITCs)?

(Ref: EM to ED–330: Section 1–E, Paragraphs 57–61)

Overall response: Yes. No further comments.

Detailed comments (if any):

(d) The application material in paragraphs A59 and A62–A63 of ED–330 that addresses the possible impact of emerging technologies on the auditor's considerations relating to the consistency of the operation of automated controls?

(Ref: EM to ED–330: Section 1–E, Paragraphs 62–63)

Overall response: Yes. No further comments.

Detailed comments (if any):

Click or tap here to enter text.

Any Other Matters

6.	Are there any other matters you would like to raise in relation to ED–330? If so, please clearly indicate the requirement(s) or application material paragraphs, or the theme or topic, to which your comment(s) relate.

Overall response: **No. No further comments.**

Detailed comments (if any):

Click or tap here to enter text.

DRAFT

PART C: Responses to Questions Related to ED–500 (2026)

This section contains the questions from the EM accompanying ED–500 (2026).

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

Purpose, Scope, Objective and Linkages with Other Standards

1. With respect to the purpose, scope and objective of ED–500 (2026):

   (a) Does ED–500 (2026) provide an appropriate principles-based reference framework for auditors when making judgments about audit evidence throughout the audit?

   (Ref: EM to ED–500 (2026): Section 1–A, and overall)

Overall response: Yes, with comments below.

Detailed comments (if any):

We support the theory behind the proposed framework. The principle is sound and consistent with existing methodologies; but a short requirement needs a lot of application material to explain it; and there's no overall example showing how one piece of information becomes audit evidence.

   (b) Are the relationships to, or linkages with, other ISAs clear and appropriate?

   (Ref: EM to ED–500 (2026): Section 1–A, and overall)

Overall response: Yes, with comments below.

Detailed comments (if any):

We support this and agree that the references to other ISAs are clear.

Definitions

2. With respect to the revised definition of audit evidence:

   (a) Do you support the revised definition?

   (Ref: EM to ED–500 (2026): Section 1–B, Paragraphs 10–14)

Overall response: Yes, with comments below.

Detailed comments (if any):

We support the new definition and that procedures need to be performed over information for it to become audit evidence/

(b) Do you agree that the interaction of the revised definition and the requirements addressing inconsistencies in audit evidence are appropriate?

(Ref: EM to ED–500 (2026): Section 1–E, Paragraphs 57–62)

Overall response: Agree. No further comments.

Detailed comments (if any):

3. Does the application material in paragraphs A10–A12 of ED–500 (2026) appropriately describe the interrelationship of the sufficiency, appropriateness and persuasiveness of audit evidence?

(Ref: EM to ED–500 (2026): Section 1–B, Paragraphs 15–20)

Overall response: Yes, with comments below.

Detailed comments (if any):

We question whether the examples are future-proofed and may need to be revised in light of proposed revisions to the inventory and external confirmations standards i.e. that inspection or external confirmation may provide more persuasive evidence than inquiry. We recommend that an example be included that includes evidence from test of controls and when this could be more persuasive.

Paragraph A12 has an example that audit procedures that are more extensive (e.g., a larger sample size for audit sampling purposes) may provide more persuasive audit evidence. Paragraph A 10 states that increasing quantity of audit evidence by performing the same type of audit procedures may not provide more persuasive audit evidence in all circumstances. Read together, these appear to be in contradiction with each other.

Relevance and Reliability of Information Intended to be Used as Audit Evidence

4. With respect to the proposals (requirements and application material) in ED–500 (2026) for evaluating the relevance and reliability of information intended to be used as audit evidence:

(a) Does the requirement in paragraph 11 support an appropriately robust evaluation by the auditor, including being scalable to accommodate varying degrees of work effort that may be needed, depending on the specific circumstances?

Please also include views you may have on sources of information (paragraphs A29–A33 of ED–500 (2026)) and the attributes of reliability of information intended to be used as audit evidence (paragraphs A4, A28, and A42–A54 of ED–500 (2026)).

(Ref: EM to ED–500 (2026): Section 1–D, Paragraphs 34–36, 38–42)

Overall response: No, as explained in comments below.

Detailed comments (if any):

We tested the attributes of significance as part of our field testing.

Feedback on this proposal indicated that, although this was considered conceptually sound, the practical implementation of this proposal could be challenging. The work effort was deemed to be significant and hard to scale, especially given the volume of audit evidence that is included on an audit file.

The attributes had the appearance of a checklist, and the concern was that they would become one and would be interpreted as such by reviewers or methodologies. This could lead to a high documentation burden if an audit team is expected to document why they considered one attribute over another.

We also heard that “of significance in the circumstances" is subjective and may be applied inconsistently.

We therefore recommend that the IAASB does not proceed with the attributes of significance evaluation as drafted. If it does, we recommend that: (a) additional examples are included, in particular an example of how judgement is applied to determine which attribute is of significance in a particular circumstance; and (b) the trigger for evaluating authenticity (paragraph A50) is moved to one of the first points in the application material on authenticity, with a reference to ISA 200."

(b) Do you support the IAASB’s position to retain in paragraph 12 of ED–500 (2026) the approach for the auditor to evaluate, to the extent necessary, the accuracy and completeness of information produced by the entity?

(Ref: EM to ED–500 (2026): Section 1–D, Paragraphs 34, 43–46)

Overall response: Yes, with comments below.

Detailed comments (if any):

We support retaining paragraph 12 of ED–500 (2026), which requires the auditor to evaluate, to the extent necessary, the accuracy and completeness of information produced by the entity. These are the attributes auditors already focus on, and methodology tools usually force consideration of them.

(c) Do you agree with the requirement in paragraph 13 that builds on preceding requirements and that sets the expectation for the auditor’s work effort in evaluating the reliability of information intended to be used as audit evidence?

(Ref: EM to ED–500 (2026): Section 1–D, Paragraphs 34, 37)

Overall response: Disagree, as explained in comments below

Detailed comments (if any):

We support the principle that the work effort should reflect the circumstances. However, as drafted, we do not consider that paragraph 13 sets a clear or scalable expectation for the evaluation of the attributes of reliability. We recommend that this be redrafted to make the expectation clear and address the concerns raised in our comments on question 4(a) about work effort, documentation and the risk that the attributes become a checklist.

(d) Do you support the IAASB's position not to pursue introducing specific documentation requirements in ED–500 (2026)?

(Ref: EM to ED-500 (2026): Section 1–D, Paragraphs 47–50)

Overall response: Yes, with comments below.

Detailed comments (if any):

We support the IAASB's position not to introduce specific documentation requirements in ED–500 (2026) as the work effort involved would be significant and we believe that this would outweigh the benefits. We recommend the inclusion of a worked example to illustrate what the auditor could consider.

Considerations for Using Technological Tools

5. Do you support the IAASB's position to include application material to provide guidance on how the principle-based requirements of the standard apply when the auditor uses technological tools and to do so in the format of an Appendix (Appendix 3 of ED–500 (2026))?

(Ref: EM to ED–500(2026): Section 1–F, Paragraphs 65–71)

Overall response: Yes, with comments below.

Detailed comments (if any):

We support this approach and agree that this is a rapidly evolving area and important to future proof. We have heard stakeholder requests for guidance in this area.

Any Other Matters

6. Are there any other matters you would like to raise in relation to ED–500 (2026)? If so, please clearly indicate the requirement(s) or application material paragraphs, or the theme or topic, to which your comment(s) relate.

Overall response: No. No further comments.

Detailed comments (if any):

DRAFT

PART D: Responses to Questions Related to ED–520

This section contains the questions from the EM accompanying ED–520.

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

Scope and Objectives

1. Do you agree with the revised scope and objectives of ED–520?

   (Ref: EM to ED–520: Section 1–A, Paragraphs 3–7)

Overall response: Agree, with comments below.

Detailed comments (if any):

We agree with the revised scope and objectives of ED–520. The expanded scope usefully clarifies how the standard applies, reflects the broader use of technology in analytical procedures throughout the audit, and clarifies the links between ED–520, ISA 330 and ISA 315 (Revised 2019). Education on the intent of these changes will be important, so that stakeholders understand how the objective of an analytical procedure differs from the objective of a substantive analytical procedure.

Definitions

2. Do you support the proposals in ED–520 relating to definitions; specifically:

   (a) The revised definition of analytical procedures?

   (Ref: EM to ED–520: Section 1–B, Paragraph 8)

Overall response: Yes. No further comments.

Detailed comments (if any):

We support the revised definition of analytical procedures and the distinction it draws from substantive analytical procedures by removing the investigation of differences.

   (b) The clarification in paragraph A4 of ED–520 about analytical procedures that are not substantive analytical procedures?

   (Ref: EM to ED–520: Section 1–B, Paragraph 9)

Overall response: Yes, with comments below.

Detailed comments (if any):

We support the clarification in paragraph A4 of ED–520. Both analytical procedures and substantive analytical procedures have a place in an audit, and auditors need to understand the distinction between them and when each can be used. The clarification should not discourage auditors from

performing analytical procedures that are not substantive analytical procedures, as these procedures can help identify risks or provide evidence to support the overall conclusion.

(c) Introducing a definition of substantive analytical procedures, including whether this definition appropriately embeds the features that differentiate substantive analytical procedures from an analytical procedure used more broadly in other aspects of an audit?

(Ref: EM to ED–520: Section 1–B, Paragraphs 10–13)

Overall response: Yes, with comments below.

Detailed comments (if any):

We support the introduction of this definition and the distinction that the purpose of a substantive analytical procedure is to detect a material misstatement.

Substantive Analytical Procedures

3. For substantive analytical procedures, do you support the proposals (requirements and application material) in ED–520 related to the following matters:

(a) The level of precision of the auditor's expectation, including the linkage to ED–500 (2026) with respect to evaluating the reliability of information used in developing such expectation?

(Ref: EM to ED–520: Section 1–C, Paragraph 15)

Overall response: Yes, with comments below.

Detailed comments (if any):

We support the proposals and the linkage to ISA 500. We refer to answer Part C, 4 (a) regarding the attributes of significance encouraging a checklist approach, in which auditors feel obliged to work through every attribute of reliability when evaluating the information used to develop the expectation.

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

(Ref: EM to ED–520: Section 1–C, Paragraphs 16–18)

Overall response: Yes, with comments below.

Detailed comments (if any):

We support the introduction of a threshold to detect a material misstatement and agree that the limit of this should be performance materiality.

We recommend additional application material to address the disaggregation risk and what an auditor should consider if the balance is disaggregated. This would address the risk that: if a balance is disaggregated far enough, any difference will always fall within performance materiality. We

encourage the IAASB to make clear in the application material how disaggregation should be considered when setting the threshold.

(c) Investigating the results of substantive analytical procedures? *(Ref: EM to ED–520, Section 1–C, Paragraphs 19–22)*

Overall response: Yes, with comments below.

Detailed comments (if any):

We support the clarification that differences should be investigated and that inquiry alone not sufficient to investigate differences for a substantive analytical procedure.

Any Other Matters

4. Are there any other matters you would like to raise in relation to ED–520? If so, please clearly indicate the requirement(s) or application material paragraphs, or the theme or topic, to which your comment(s) relate.

Overall response: Click to select from dropdown menu

Detailed comments (if any):

Click or tap here to enter text.

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

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

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XRB | Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

Template: Assessment for Consistency Accountability Statement

Reference number	[Standard number]
Subject	**Regulatory Standards Act assessment to support Consistency Accountability Statement**
Related to	**ISA (NZ) 330, The Auditor's Response to Assessed Risks,** **ISA 500, Audit Evidence,** **ISA 520, Analytical Procedures.** This draft CAS file note has been drafted at the stage of submission to the IAASB. It covers all three proposed standards – it will be split into separate CAS assessments – one for each standard at a later stage.
Date of technical board discussion of this assessment	[Date of NZAuASB 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.

The parts highlighted yellow have been amended. This has been completed to represent the stage of completion in preparation for the international submission to the IAASB.

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.
6. The [NZAuASB] has reviewed this RS Act Assessment and agree with the conclusions, as part of recommending to the XRB Board that [standard number] is issued. The [NZAuASB]'s review is done to provide advice to the Chief Executive, to inform their independent assessment of whether [standard number], and the process for developing it, have any inconsistencies with the principles.

The scope of XRB's statutory powers

7. 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

8. 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.
9. 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.
10. 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.

11. 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.

12. [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.

13. This RS Act Assessment documents our processes and analysis in accordance with the principles. We have evaluated [Standard number] against all principles.

14. 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

15. 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

16. [Standard number] [and the International Board's Basis for Conclusions] will be published on the [Accounting/Assurance/Climate] standards page [add hyperlink] on the XRB's website on the date that it is gazetted.

17. All extant XRB standards are searchable using the XRB Standards Navigator.

Clarity

18. [Standard number] will apply to assurance practitioners. It also needs to be understood by regulators of audit and assurance standards .

19. [Standard number] is a New Zealand equivalent of ISA 330 (Revised) *The Auditor's Responses to Assessed Risks* which was issued by IAASB. There are significant differences between the structure and drafting style used by IAASB and Parliamentary Counsel Office's legislative drafting approach and style.

20. 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 ISA 330 because it preserves global assurance consistency and comparability, avoids the risk of contradictions with other standards, reduces the risk of disputes and reduces compliance costs. 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.

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

22. 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

23. 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

24. 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

25. 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.

26. 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

27. 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

28. 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

29. 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

30. 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

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

> **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]

32. [Standard number] will directly and materially affect:

    (a) Assurance practitioners[1]

    (b) Users of financial statement audit reports

33. We took the following steps to consult:

    (a) Issue of a New Zealand Exposure Draft and links to the three international Exposure Drafts consultation on 11 August 2026 and publication on our website

    (b) Notification of stakeholders through an Audit and Assurance Alert on 11 August and 23 September and the October XRB update

    (c) LinkedIn Posts on in October and November 2026

    (d) Deep dive explaining proposals on 6 October

[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.

(e) Need-to-know webinar on 13 October.

(f) Meetings with regulators and audit software provider to obtain feedback during October.

(g) Input from XRAP members on 18 November

(h) Field testing of three significant proposals by practitioners in October.

S9(j): Evaluation

34. 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.

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.

35. [Standard number] is the New Zealand equivalent of ISA 330, The Auditor's Responses to Assessed Risks.

36. The IAASB identified that the existing standards on audit evidence and the auditor's responses to assessed risks do not adequately reflect the evolving audit environment or operate together as effectively as intended. In particular, issues had arisen concerning:

(a) auditors' judgments about the relevance and reliability of information used as audit evidence, including information from increasingly diverse sources;

(b) obtaining and evaluating sufficient appropriate audit evidence;

(c) the effectiveness and consistency of auditors' responses to assessed risks of material misstatement, including the use and testing of internal controls;

(d) the appropriate exercise of professional judgment and professional scepticism; and

(e) the standards' ability to accommodate the increasing use of technology and automated tools and techniques.

37. The IAASB therefore determined that ISA 330, ISA 500 and ISA 520 needed to be considered together, addressing both the "reference framework" for audit evidence and the "performance" of audit procedures.

38. The IAASB considers that these matters need to be addressed to promote more consistent and effective auditor responses to risks of material misstatement, strengthen auditors' judgments about the sufficiency and appropriateness of audit evidence, and ensure the standards remain principles-based and relevant as technology and audit practices evolve.

39. Current legislation and common law do not address the identified issues identified above. These issues can only be addressed by amending the standard itself.

40. A New Zealand changes proposes to amend references to written representations to refer to those charged with governance (not management) given that those charged with governance are responsible for the financial statements. These amendments exist in the extant New Zealand standards in secondary legislation and are needed to ensure consistency between the ISAs (NZ).

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.

41. It is in the public interest to issue [NZ standard number] for the reasons stated in paragraph 40 explaining why the XRB generally adopts international standards as a whole except where changes have been considered appropriate having regard to New Zealand circumstances and New Zealand law and otherwise, the potential adverse consequences of departing from the international wording in individual standards.

42. It is also in the public interest for [NZ standard number] to apply from the same date as ISA 330. The New Zealand standard and the international standard would impose different requirements for a time if the application dates were to be different.

43. It is in the public interest to include New Zealand specific changes because these amendments exist in the extant New Zealand standards.

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.

44. 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.

45. 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.

46. The purpose of [Standard number] is to improve the overall quality of [standards used for conducting audits of historical information.

47. 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.

48. We have not identified any fairness or equity issues.

S9(k): Implementation

The principle

49. 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.

50. 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

51. 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.

52. We are satisfied that the benefits exceed the costs for the reasons stated in Section D of Appendix A.

53.

-

S9(m) – Effectiveness, efficiency and proportionality

The principle

54. The principle states that the legislation should be the most effective, efficient and proportionate response to the issue concerned that is available.

55. 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.

56. Issuing [standard number] is the most effective, efficient and proportionate response for the reasons stated in paragraph 40.

57. New Zealand specific changes have been included for the reasons stated in paragraph(s) [xx].

Attachment

Appendix A – Benefit and Cost Assessment

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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

- ***IFRS Accounting Standards***
- ***IPSAS Accounting Standards***
- ***IAASB Auditing and Assurance Standards***
- ***IESBA Standards***

Section C – Domestic benefit-cost considerations

- ***IFRS Accounting Standards***
- ***IPSAS Accounting Standards***
- ***IAASB Auditing and Assurance Standards***
- ***IESBA Standards***
- ***XRB Domestic Reporting Standards***
- ***XRB Domestic Assurance Standards***
- ***XRB Re-gazetting Process***

Benefit-cost questions and feedback from respondents

Section D – Overall conclusion

Standard Name	**ISA 330, the Auditors Reponses to assessed Risks ('the standard'), ISA 500, Audit Evidence, ISA 520, Analytical Procedures**
Standard Reference	**[XRB 20XX/XX]**
Principal Standard(s)/Amendment	**Principal Standard**
Significant impact/narrow-scope	**Significant Impact**
Impacted entities	**All entities subject to financial statement audit**

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 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

[IAASB Auditing and Assurance Standards]

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

[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.

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):** IAASB standards are used in over 130 jurisdictions and provide a globally recognised basis for high-quality audit and assurance engagements. Alignment with international standards enhances the credibility of financial and non-financial reporting and supports cross-border investment and regulatory confidence. • **Enhanced confidence in assurance outcomes (Users):** Consistent, principle-based requirements reduce variability in audit and assurance approaches and strengthens trust in assurance conclusions. This supports investor 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 complex audit issues (e.g., technology, fraud, sustainability assurance) without needing to develop local standards independently. • **Proportionate and scalable (Assurance practitioners):** IAASB standards are designed to be applied in a proportionate and scalable manner, allowing assurance practitioners to tailor procedures based on the size and complexity of the entity.
Major expected costs
• **Implementation and methodology updates (Assurance Practitioners):** New or 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

[IAASB Auditing and Assurance Standards]

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
• **Improved audit quality and consistency (Users):** The standard will enhance the quality and consistency of New Zealand audit and assurance engagements, supporting confidence in financial reporting and regulatory oversight by ensuring the minimum requirements for performing these services are enhanced to support users trust in reported financial information. • **Proportionality and scalability (Assurance Practitioners):** The requirements are principles-based and capable of being applied in a proportionate and scalable manner enabling practitioners to tailor the application of the requirements to the size, complexity and nature of the entity and engagement. • **Practical benefits for firms operating internationally (Assurance practitioners):** The standard will result in benefits for assurance practitioners within global networks or with cross-border clients, as they will benefit from consistent methodologies, training streams and reduced need for bespoke jurisdictional adjustments. • **Clearer judgements about audit evidence:** The proposed audit evidence framework would strengthen how auditors evaluate the relevance and reliability of information to be used as audit evidence. This should support judgements about whether information is sufficiently reliable for the intended audit purpose**.** • **Better integration across core audit standards:** Revising ISA 330, ISA 500 and ISA 520 concurrently should improve the coherence of the standards. This is particularly important because audit responses, audit evidence and analytical procedures interact throughout the audit. • **Support for technology-enabled audits:** The proposals are designed to remain capable of being applied using technological tools as technology evolves. This should support innovation while retaining principles-based requirements that focus on evidence quality and audit judgement. • **International alignment:** Adopting New Zealand equivalents of the final IAASB standards would maintain alignment between New Zealand auditing standards and international auditing practice. This benefits firms operating internationally and supports users confidence in New Zealand audit quality
Major expected costs
• **Implementation effort for New Zealand assurance practitioners (Assurance Practitioners):** The standard introduces new requirements which will mean assurance practitioners will need to update methodologies, templates and systems, and provide training. These costs may have a disproportionate impact on smaller firms. • **Ongoing time and resource investment (Assurance Practitioners):** The standard introduces new requirements and may involve additional costs, particularly in higher risk areas of the engagement, where strengthened requirements may require increased work effort, professional judgement and documentation. • **Training and implementation costs:** Auditors will need to understand the revised concepts and apply them consistently, including changes relating to tests of controls, substantive procedures, reliability attributes and substantive analytical procedures**.** • **Potential additional work effort in some audits:** The proposals may require additional work where auditors need to obtain evidence about the reliability of information, perform other procedures over information used as audit evidence, or document more explicit stand-back evaluations. • **Judgement and documentation effort:** The proposals may increase the need to document professional judgements, particularly where auditors conclude that tests of

controls alone provide sufficient appropriate audit evidence or where substantive procedures are not performed for material items because no risks of material misstatement are identified.

- **Proportionality challenges for smaller practices:** Smaller practices may face proportionately higher implementation costs because they have fewer specialist methodology, technology and training resources. The proposals may also require additional support to apply the requirements efficiently in a proportionate manner.

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.

Benefit-cost questions and feedback from respondents

[Note for XRB staff: integrate this section with the domestic considerations above]

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 agree with our assessment of identified benefits and costs?	Stakeholders agreed with the assessment of benefits and costs, and felt that they would lead to: • better audit quality and consistency • clearer judgements about audit evidence • support for audits that use technology. Costs • The respondent recognises the costs set out in the consultation document. • There will be extra work and documentation in some areas, mainly in evaluating whether information used as audit evidence is relevant and reliable.	Benefits of adoption considered to outweigh costs

		• Implementation will mean redesigning working papers and giving auditors more guidance and training.	
	Do you have any additional comments on the expected benefits and costs of the proposed standard and their impact on New Zealand?	Stakeholders did identify additional considerations from these proposals: The revised standards should give auditors more flexibility in how they respond to assessed risks, through: • a broader definition of substantive procedures • more room for new audit approaches and technologies • the ability to focus substantive audit work on areas where risks of material misstatement have been identified. Costs • Extra work may be understated: The consultation document says extra work will arise only in some audits. The respondent expects it on most audits, although the nature and extent will vary by engagement. • Smaller practices: They are likely to face proportionally greater implementation challenges because they have fewer	The XRB's strategy is to adopt international standards where appropriate to support global consistency, credibility and confidence in New Zealand's financial reporting and assurance framework. International alignment promotes high-quality assurance and comparability of assurance outcomes. Our submission highlighted the audit evidence proposals and scalability challenges for smaller practices. For the remaining proposals, as currently drafted, we believe that the identified benefits of adoption outweigh the costs of adopting these standards.

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		technical, technology and training resources	

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 D – 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.

This analysis and conclusion support the statement in the CAS that we have not identified any inconsistencies in the standard, and the process for developing it, with the principles of good responsible regulation.

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Te Mana Arotake

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9 November 2026

Wendy Venter FCA
Chief Executive
External Reporting Board
Wellington

By email: assurance@xrb.govt.nz

Dear Wendy

Consultation on audit evidence and risk response

Below are our comments on your request for feedback on the proposed amendments to ISA 330, ISA 500, and ISA 520.

Overall, we support the proposed revisions to these standards. We welcome the updated definitions and the additional application material, which provide auditors with a clearer and more structured framework for applying the standards. Our feedback identifies some areas where further guidance or practical examples would support consistent application, and comments on the potential benefits, costs and work-effort implications with some of the proposals.

We have responded by answering each of the questions in the exposure drafts and included any additional comments under the final question for each standard.

Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact me or Cristin Dyer, Associate Director of Methodologies at Cristin.Dyer@ao.parliament.nz.

Yours sincerely



Lauren Clark
Director, Methodologies and Technical Support

ED ISA 330 (Revised)

1 Do you agree that the collective revisions to the requirements and application material reflected in ED–330 enhance alignment with concepts and principles addressed in ISA 315 (Revised 2019), including for terminology related matters?

Yes, as supported by the answers to the questions below.

2 Do you support the revised and new definitions for:

a Substantive procedures?

Yes, the revised definition is appropriately broader and allows for new or evolving audit procedures that are designed to detect material misstatements at the assertion level. This helps to future-proof the standard as new audit approaches and technologies develop.

b Tests of controls?

Yes, the broader definition appropriately recognises that tests of controls may be used to obtain audit evidence about the operating effectiveness of controls for purposes other than designing and performing further audit procedures. We note that tests of controls are commonly used to evaluate the reliability of information provided by the entity as well as in responding to risks of material misstatement at the assertion level.

c Tests of details?

Yes, we support the new definition as it provides clarity about what constitutes test of details and recognises that tests of details may be performed for purposes other than as substantive procedures.

3 Do you support removing paragraph 18 of extant ISA 330 (and the related application material in paragraphs A43–A44) and replacing it with strengthened requirements and application material in ISA 315 (Revised 2019)? Please also include any views you may have regarding the options that the Board deliberated in addressing this matter (see paragraphs 30–33 of Section 1–C).

Yes, we support removing paragraph 18. We consider that the audit response should follow the auditor's identification and assessment of risk. Where a risk of material misstatement has been identified, appropriate further audit procedures should be performed; but where no such risk has been identified, substantive procedures should not be required solely because a class of transactions, account balance or disclosure is material. Therefore option 1 is the option we support.

The existing requirement in paragraph 18 of ISA 330 seems to be a backstop for potential issues with the auditor's risk assessment. If there are issues with the auditor's risk assessment, we do not see the existing paragraph 18 as the best response to this. The proposed change places greater importance on performing a robust risk assessment, and

we therefore agree that it is appropriate to strengthen the requirements and guidance is ISA 315 (Revised 2019). This should be accompanied by supporting implementation guidance to help auditors to apply this in their risk assessment.

4 For substantive procedures, do you support:

a The new baseline requirement for designing and performing substantive procedures in paragraph 9 of ED–330?

Yes, we support the new baseline requirement and the broader definition of substantive procedures. By defining that substantive procedures *include*, rather than are limited to, tests of details and substantive analytical procedures, this allows auditors to develop and perform other types of substantive procedures that are appropriate. This also helps to future-proof the standard as new approaches and technologies develop. However, as the concept of substantive procedures outside the existing categories is new, we consider that it would be useful to provide additional application material and practical examples. This would assist auditors in understanding what may constitute an appropriate alternate form of substantive procedure and support consistent application.

b Retaining the approach from extant ISA 330 that when the auditor's approach to a significant risk consists only of substantive procedures, those procedures shall include tests of details on the basis that substantive analytical procedures are insufficient by themselves to provide sufficient appropriate evidence to respond to a significant risk?

Yes, we support retaining this requirement in principle. Significant risks often arise from matters involving significant judgement, estimation uncertainty, complexity or change. In these circumstances, it is unlikely that the auditor would be able to develop a sufficiently precise and predictable expectation for a substantive analytical procedure alone to provide sufficient appropriate audit evidence. However, given the change to the definition of substantive procedures we question whether the intention of this requirement is that the procedures do not solely consist of substantive analytical procedures. Is it intended that substantive procedures that are not tests of details or analytical procedures could not be sufficient?

We also note that many significant risks relate to accounting estimates, which are tested in accordance with ISA 540 (Revised). It would be helpful if the application guidance explained how this requirement interacts with ISA 540 (Revised).

5 For tests of controls, do you support the following proposals in ED-330:

a The principle reflected in the conditional requirement in paragraph 16 of ED–330 that makes explicit the possibility of performing tests of control alone to address ROMMs at the assertion level?

Yes, depending on the nature of the entity's systems and processes, a tests of controls alone approach may be an appropriate or necessary audit response. This is particularly necessary where the substantive procedures alone cannot provide sufficient

appropriate audit evidence or may not be practicable. This includes situations where the entire process is automated.

b The circumstances in which a "tests of controls alone" approach (see (a) above) is appropriate, including the criteria (see paragraphs 16(a) and (b), 20 and the related application material) for such an approach?

Yes, we agree with the circumstances and criteria for permitting a tests of controls alone approach. Where inherent risk is not assessed at the higher end of the spectrum and is not a significant risk, a controls-only approach may provide an appropriate and efficient response. We also find the practical application material helpful in explaining the factors the auditor may consider when determining whether the controls are sufficiently precise to reduce the risk to an acceptably low level. We agree with the requirement that the controls must be tested in the current period, where a controls alone approach is taken.

c Indirect controls, including the Board's position that "controls" in paragraph 17 of ED–330 already include indirect controls when necessary, and the application material that has been added to clarify the auditor's approach to indirect controls (including GITCs)?

Yes, we agree that the existing requirements already include indirect controls, but the additional application material provides greater clarity about how direct and indirect controls, including GITCs, should be considered when the auditor has determined to test controls.

d The application material in paragraphs A59 and A62–A63 of ED–330 that addresses the possible impact of emerging technologies on the auditor's considerations relating to the consistency of the operation of automated controls?

Yes, we support this. The additional examples and guidance on how the characteristics of a control, particularly the technology used to perform the control, may affect the nature, timing, and extent of the auditor's procedures is useful.

6 Are there any other matters you would like to raise in relation to ED–330? If so, please clearly indicate the requirement(s) or application material paragraphs, or the theme or topic, to which your comment(s) relate.

- Tests of controls - Although the requirement for more persuasive audit evidence already exists, ED ISA 330 provides a stronger framework and additional guidance to support the auditor's judgement, including guidance on the precision of controls and the nature and extent of testing. This provides greater clarity in applying the existing principles.

- Substantive testing – We see removing paragraph 18 as a key benefit, as it enables audit effort to be focused on areas where risks of material misstatement have been identified, rather than imposing minimum substantive testing requirements on areas where no such risks have been identified.

ED ISA 500 (Revised)

1 With respect to the purpose, scope and objective of ED–500 (2026):

a Does ED–500 (2026) provide an appropriate principles-based reference framework for auditors when making judgments about audit evidence throughout the audit?

Yes, the application guidance, in most instances, provides auditors with appropriate principles to support their judgements about whether audit evidence is sufficient and appropriate.

b Are the relationships to, or linkages with, other ISAs clear and appropriate?

Yes.

2 With respect to the revised definition of audit evidence:

a Do you support the revised definition?

Yes, this makes it clear that information is not automatically audit evidence just because it was obtained by the auditor.

b Do you agree that the interaction of the revised definition and the requirements addressing inconsistencies in audit evidence are appropriate?

Yes, the requirement to address inconsistencies in audit evidence has been clarified and enhanced through the inclusion of additional application material compared with the extant standard.

3 Does the application material in paragraphs A10–A12 of ED–500 (2026) appropriately describe the interrelationship of the sufficiency, appropriateness and persuasiveness of audit evidence?

Yes, the explanation the application guidance explains this interrelationship well including how the level of persuasiveness required is influenced by the assessed risk of material misstatement.

4 With respect to the proposals (requirements and application material) in ED–500 (2026) for evaluating the relevance and reliability of information intended to be used as audit evidence:

a Does the requirement in paragraph 11 support an appropriately robust evaluation by the auditor, including being scalable to accommodate varying degrees of work effort that may be needed, depending on the specific circumstances? Please also include views you may have on sources of information (paragraphs A29–A33 of ED–500 (2026)) and the attributes of reliability of information intended to be used as audit evidence (paragraphs A4, A28 and A42–A54 of ED–500 (2026)).

Yes, but should there be more guidance on how scalability could impact the nature and extent of this work. ED ISA 500 recognises in paragraph A28 that the nature of the assessed risk of material misstatement may be relevant when determining which attributes of reliability are significant. However, the application material could be clearer about how the assessed risk of material misstatement affects the nature and extent of the work required to evaluate the reliability of information. For example, where detailed testing is necessary to establish the reliability of information used in further audit procedures, should the extent of that testing be scalable based on the assessed risk of material misstatement? Some examples of what the documentation of the relevance and reliability could look like for some simple assessments vs some more complex assistance would be beneficial.

b Do you support the IAASB's position to retain in paragraph 12 of ED–500 (2026) the approach for the auditor to evaluate, to the extent necessary, the accuracy and completeness of information produced by the entity?

Yes. It is also noted that the definition says to "the extent necessary" which along with the application guidance will assist the auditor determine the extent of the evaluation needed. While paragraph A45 contains one example relating to risk assessment, additional examples, including some relating to substantive testing, would be helpful.

c Do you agree with the requirement in paragraph 13 that builds on preceding requirements and that sets the expectation for the auditor's work effort in evaluating the reliability of information intended to be used as audit evidence?

Yes, as it provides clarity and flexibility on evaluating the reliability of information, where this has not already been addressed. We support establishing the reliability of the information by testing the operating effectiveness of relevant controls or by performing other audit procedures.

d Do you support the IAASB's position not to pursue introducing specific documentation requirements in ED–500 (2026)?

Yes, introducing specific documentation requirements could therefore create unnecessary effort and complexity. with the principles that apply are already covered by the requirements of ISA 230 and other ISAs.

5 Do you support the IAASB's position to include application material to provide guidance on how the principle-based requirements of the standard apply when the auditor uses technological tools and to do so in the format of an Appendix (Appendix 3 of ED–500 (2026))?

Yes, there is a wide range of technological tools available to auditors, and these tools may be applied across different types of audit procedures and audit evidence. An appendix is therefore a practical way of bringing the relevant considerations together, as they apply across the standard and do not necessarily relate to specific individual requirements.

6 Are there any other matters you would like to raise in relation to ED–500 (2026)? If so, please clearly indicate the requirement(s) or application material paragraphs, or the theme or topic, to which your comment(s) relate.

The proposed amendments provide a more structured framework for judgements that auditors are already required to make when assessing the relevance and reliability of information to be used as audit evidence. In some areas of our work this will result in additional documentation requirements. While the standard does allow for scalability in paragraph 9(b), there will be an increase in documentation requirements. This would most likely require some amendments to our working paper designs in our audit tool and increased training, guidance, and examples to our auditors.

Auditors are already using technological tools to assist them in their work, so the improved guidance and examples will help them determine how the work should be appropriately documented in their audit files.

ED ISA 520 (Revised)

1 Do you agree with the revised scope and objectives of ED–520?

Yes, as it covers all analytical procedure that they auditor may perform during the audit engagement in one place.

2 Do you support the proposals in ED–520 relating to definitions; specifically:

a The revised definition of analytical procedures?

Yes**,** the revised definition is clearer than the extant version. We agree with removing the investigation of differences from the definition of an analytical procedure.

b The clarification in paragraph A4 of ED–520 about analytical procedures that are not substantive analytical procedures?

Yes, having separate definitions for analytical procedures and substantive analytical procedures, together with the related application guidance, helps auditors understand the distinction between them and the different purposes for which they may be used during the audit. While it is covered in ED-330 paragraph A29, the guidance could more comprehensively clarify the role of analytical procedures that are not substantive analytical procedures.

c Introducing a definition of substantive analytical procedures, including whether this definition appropriately embeds the features that differentiate substantive analytical procedures from an analytical procedure used more broadly in other aspects of an audit?

Yes, defining substantive analytical procedures makes it clearer what constitutes a substantive analytical procedure and what distinguishes these from analytical

procedures used more broadly during the audit. The proposed definition is consistent with our view of the characteristics of substantive analytical procedures.

3 For substantive analytical procedures, do you support the proposals (requirements and application material) in ED–520 related to the following matters:

a The level of precision of the auditor's expectation, including the linkage to ED–500 (2026) with respect to evaluating the reliability of information used in developing such expectation?

Yes. The precision of the auditor's expectation is important in determining whether the substantive analytical procedure is capable of detecting a material misstatement and the persuasiveness of the audit evidence it can provide.

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

Yes, we agree with this requirement. We do not believe it is appropriate to use an acceptable difference that exceed performance materiality. The substantive analytical procedure needs to be sufficiently precise to detect a material misstatement.

c Investigating the results of substantive analytical procedures?

Yes, we agree that auditors should investigate differences to obtain additional information to determine whether the difference identified has a valid explanation or whether a potential misstatement exists. It also appropriately requires the auditor to obtain audit evidence supporting management's explanations for the identified difference and to perform further audit procedures where necessary.

d Are there any other matters you would like to raise in relation to ED–520? If so, please clearly indicate the requirement(s) or application material paragraphs, or the theme or topic, to which your comment(s) relate.

No.

XRB Consultation document

1 Do you agree with our assessment of identified benefits and costs?

We note the benefits identified in the consultation document, particularly the potential for improved audit quality and consistency, clearer judgements about audit evidence, and support for technology-enabled audits. As reflected in our responses above, we consider that the proposals provide stronger and clearer frameworks for auditor judgement and more focused risk-based audit responses. For example, this includes the additional guidance supporting judgements about tests of controls, the ability to better focus substantive audit effort on areas where risks of material misstatement have been identified, and a clearer principles-based framework for evaluating audit evidence. We also consider that the broader approach to substantive procedures and the enhanced

consideration of technological tools should help the standards accommodate evolving audit approaches and technologies. Overall, these changes should support more consistent application of the standards and appropriately focused audit effort.

We are also conscious of the costs identified in the consultation document. As noted in our responses above, the proposals are likely to result in additional work and documentation in some areas, particularly in relation to evaluating the relevance and reliability of information intended to be used as audit evidence. Implementation will also require changes to working paper design and additional guidance and training for auditors.

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

The revised standards should provide greater flexibility in how auditors respond to assessed risks, including through the broader definition of substantive procedures, greater scope to accommodate evolving audit approaches and technologies, and the ability to better focus substantive audit effort on areas where risks of material misstatement have been identified.

The consultation document may understate the likely additional work effort by describing this as potential additional work arising only in some audits. In our view, additional work is likely on most audits, although the nature and extent of that additional effort will vary depending on the circumstances of the engagement.

We also note the scalability challenges and the impact on smaller practices. Smaller practices are likely to face greater proportional implementation challenges, particularly where they have fewer dedicated technical, technology, and training resources. We consider that additional implementation support would be beneficial, including practical guidance for firms on how methodologies and audit approaches may need to change, supported by examples of how the revised requirements could be applied on individual audits. Implementation guidance and training on the key changes and their practical application would also be valuable. In particular, we would welcome more examples demonstrating scalability, and more specifically, how requirements can be scaled down for smaller and less complex engagements, as determining how to appropriately scale down the nature and extent of audit work can often be more challenging than scaling it up.

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

None identified

Exposure Draft Audit Evidence and Risk Response Project

4 Do you agree that the proposals reflected in ED–330, ED–500 (2026) and ED–520 appropriately address the standard-setting actions as set out in the Supplement to this EM (those standard-setting actions are linked to relevant qualitative characteristics of the PIF and the project objectives in the project proposal)? Sections 1–A, 1–B and the Supplement You are invited to include as part of your response insights on the possible or expected impacts (positive or negative) of implementing the proposed standards. Alternatively, you

may choose to highlight such impacts as part of your responses to individual questions in the EMs to ED–330, ED–500 (2026) and ED–520.

Yes, we feel that ED ISA 330, ED ISA 500 and ED ISA 520 successfully deliver the improvements the IAASB set out to make. Our further insights have already been noted through our answers to the questions in the exposure drafts above.

5 Do the requirements and application material in ED–330, ED 500 (2026) and ED-520 appropriately reinforce the exercise of professional scepticism in obtaining and evaluating audit evidence and responding to ROMMs?

Yes, the requirements and application material in the exposure drafts appropriately reinforce professional scepticism.

6 Do you support the technology-related amendments to ISQM 1 and ISA 220 (Revised)? In particular, please share your views on whether you support the term "technological tools" as a replacement for the term "automated tools and techniques" and the description for technological tools.

Yes, the term "technological tools" is appropriate, aligns with the terminology used throughout the other exposure drafts, and is supported by application guidance.

7 Do you agree with the repositioning of the overall conclusion on the sufficiency and appropriateness of audit evidence obtained from paragraph 26 of extant ISA 330, into paragraph 11A of ISA 700 (Revised)?

We have no concerns with the proposed repositioning of the requirement to ISA 700.

8 Do you support the conforming and consequential amendment to paragraph A24 of ISA 200?

Yes, as the amendment as it aligns ISA 200 with the revised requirements and application material in ED ISA 500.

9 Are there any other matters you would like to raise in relation to the conforming and consequential amendments to the ISQMs and other ISAs? If so, please clearly indicate the ISQM/ISA requirement(s) or application material, or the theme or topic, to which your comment(s) relate.

No

10 Translations—Recognizing that many respondents may intend to translate the final standards for adoption in their own environments, have you identified any potential translation challenges or issues?

The potential costs (as noted in the answers to previous questions), particularly for small practices, could result in challenges in in translating the final standards for adoption.

11 Effective Date—Given the need for national due process and translation, the IAASB believes that an appropriate effective date for the standards would be at least 18 months after the expected date of approval of the proposed revised standards. Do you agree that this will provide a sufficient period to support effective implementation of the proposed standards? If not, what do you propose and why?

While the timeframe of 18 months is not unreasonable, practitioners and national standard setters may benefit from more lead in time, due to the revisions to three significant standards and the consequential amendments to other standards. In particular, the changes to audit evidence are pervasive and will affect audit work throughout the audit, requiring broader changes to methodologies, tools, templates and training. A timeframe of 24 months may be more practicable.

XRB | Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

NZAuASB Board meeting summary paper

Meeting date:	3 December 2026
Subject:	**Firm Culture and Governance**
Date:	11 November 2026
Prepared by:	Lisa Thomas
Reviewed by:	Misha Pieters

☒ **Action Required** ☐ **For Information Purposes Only**

Agenda item objectives

1. The objective of this agenda item is to APPROVE a New Zealand wrap around document for consultation on proposed revisions to the Code of Ethics for firm culture and governance (FCG).

Background

2. IESBA identified FCG as a strategic priority in response to recurrent high-profile cases of unethical behaviour in accounting firms internationally. Although the project responds to issues identified internationally, similar risks to the reputation of the profession and public trust and confidence are relevant in New Zealand. The project considers how firm culture and governance can promote ethical behaviour and compliance with the Code.
3. During 2024, the FCG Working Group undertook research and outreach and identified eight key interconnected elements that drive ethical culture within firms.
4. In December 2024, IESBA approved a project proposal to develop a principle-based FCG framework for accounting firms comprising the eight elements. The FCG framework would apply to all service lines of an accounting firm.
5. The project proposal established two workstreams – a standard setting workstream, and non-authoritative materials (NAM) workstream to compliment the standard setting.
6. In December 2025, IESBA finalised a set of viewpoints describing the key characteristics of the eight elements. In early 2026, IESBA sought stakeholder feedback on the viewpoints to inform its approach to developing the FCG framework.
7. Stakeholders expressed divergent views on the approach. Some supported mandatory high-level principles in the Code. Others were concerned that a framework within the Code could encourage a compliance mentality and be difficult to enforce. Some considered NAM could provide greater flexibility and more effectively reinforce the desired behaviour.
8. The NZAuASB considered the viewpoints in February 2026, noting the viewpoints were logical, aligned with current practice and reinforced the importance of the issue of ethical culture. The Board discussed the need for clarity on what would be needed in addition to

PES 3, and how the placement of the FCG framework i.e. inside or outside the Code, would directly affect its authority and accountability.

9. On balance, IESBA agreed to develop a single, high-level, overarching requirement, supported by application material in the Code, and NAM to support the implementation of the framework.

10. It was considered that anchoring the framework in the Code would give the framework prominence and facilitate greater consistency of application. Although the Code already contains the fundamental principles and broadly mentions some of the FCG elements, it does not currently address ethical culture in a holistic, comprehensive manner.

11. IESBA is expected to approve an exposure draft in December 2026. Staff will circulate the December draft to the NZAuASB as soon as it is available.

12. Key concerns raised by jurisdictional standard setters at their October meeting about the developing exposure draft include:

    (a) Risk of inconsistent enforceability and whether it is possible to enforce ethical culture, which is particularly relevant for the XRB as PES 1[1] is secondary legislation

    (b) Whether the provisions sufficiently address scalability and proportionality

    (c) Whether some application material reads as requirements potentially creating a lack of clarity of what is actually required

    (d) How the proposed provisions interact with ISQM 1. IESBA and IAASB are coordinating. The IESBA consultation papers will include a linkages paper explaining the key linkages and differences between ISQM 1 and the IESBA proposals.

Matters to consider

13. With approval anticipated at the December IESBA meeting, staff expect consultation to commence in January 2027. We are therefore seeking approval by the Board for the New Zealand wrap around document to accompany the IESBA exposure draft to facilitate engagement and outreach on the proposals.

14. The wrap around outlines:

    (a) A brief overview of the proposals

    (b) How the IESBA proposals apply in the New Zealand context and within the XRB mandate under the FRA[2]; and

    (c) Cost and benefit considerations.

15. The wrap around highlights the importance of firm culture and governance to enhance trust and confidence, recognises steps NZ firms have taken towards ethical behaviour and outlines key stakeholder concerns in the developing exposure draft.

16. A draft CAS assessment file note is also included for the Board. The key area for the Board to consider at this stage is the cost and benefit considerations. The international considerations are draft and may be refined once we have the IESBA explanatory memorandum.

17. Staff plan to discuss the proposals in more detail with the NZAuASB in February 2027.

[1] Professional and Ethical Standard 1, International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)
[2] Financial Reporting Act 2013, section 12 (b)

Recommendations

18. To APPROVE the draft New Zealand FCG wrap around document.

Material presented

- Board meeting summary paper
- Draft New Zealand FCG wrap round document
- IESBA developing exposure draft (late paper)
- Draft CAS assessment file note

XRB | Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Firm Culture and Governance

PES 1 *International Code of Ethics for Assurance*

Consultation document

Consultation closes
date

January

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Part 1: Have your say on proposed ethical culture and governance requirements

Why are we consulting?

The External Reporting Board (**XRB**) has issued this consultation paper to seek views on international proposals developed by the International Ethics Standards Board for Accountants (IESBA) for revisions to the *International Code of Ethics for Professional Accountants (including International Independence Standards)* (**the Code**) to introduce requirements for a firm to take appropriate steps to establish and maintain an ethical culture.

This document should be read in conjunction with the IESBA's explanatory memorandum and exposure draft on the proposed amendments to the Code.

[add link]

Your comments will inform our submission to the IESBA and help us determine next steps for New Zealand.

This consultation document should be read in conjunction with the IESBA Exposure Draft on our website.

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Part 2: How to provide feedback

Responding to our consultation questions

Please feel free to comment on any or all of the questions on the proposed standard.

We appreciate both formal and informal comments. To reach a balanced view we also appreciate both supportive and critical comments.

All comments received will be considered.

Verbal feedback

You can provide feedback during virtual and in-person feedback forums. Information about dates and times can be found on our events page. [add link]

Written submissions

Submissions can be provided via any of the avenues below:

- Email us: assurance@xrb,govt.nz
- Complete the online form on our website
- Comment on our LinkedIn page

All submissions will be published on the XRB website unless confidentiality is requested[1].

The consultation closes on date

Events

Keep an eye on our website for details on events and information relating to this consultation.

Consultation questions

Section heading	
In addition to your views on the questions raised in the IESBA's explanatory memorandum:	
1.	**Given the New Zealand context, do you consider that the IESBA proposals are relevant and appropriate for PES 1? If so, are they clear and workable for New Zealand? If not, or if changes would be needed, what would improve their relevance, clarity or application specifically for New Zealand?**
2.	**Do you consider that the expected benefits of the proposed amendments outweigh the implementation costs and other practical challenges? If not, why not?**
3.	**Are there any other benefits or costs that we should consider?**

[1] Submissions are subject to the Official Information Act 1982 and the Privacy Act 2020. The XRB will handle information in accordance with these Acts. If you object to the release of any information in your submission, please identify the specific parts and the reasons under the Official Information Act 1982. We reserve the right not to publish defamatory submissions

Part 3: Understand the IESBA proposals

Understand what IESBA is proposing and why

In response to recurring high-profile cases of unethical behaviour in accounting firms internationally, IESBA is proposing revisions to the Code. Unethical behaviour can significantly damage a firm's reputation, with consequences for the firm and its employees, the profession and public trust and confidence. The proposals aim to provide a global baseline, mitigate the risks of unethical behaviour, and strengthen public trust and confidence.

Unethical conduct can occur within audit and assurance services or in other parts of a firm. Unethical conduct in one part of a firm can affect confidence in the firm as a whole. The IESBA proposals apply firm-wide across all service lines of firms required to comply with the Code, whether they provide multiple services or a single service, such as taxation.

The proposals stem from a principle-based firm culture and governance framework to promote, support and reinforce a high standard of ethical behaviour by firm leadership, other partners and staff across all firm services. While stakeholders recognise the importance of an ethical culture within firms, there are mixed views on the appropriate response. Some consider the current Code adequate or that International Standard on Quality Management 1 (ISQM 1) already addresses firm culture and governance, while others differ on whether IESBA should respond through revisions to the Code or by way of non-authoritative material.

Throughout the development of the IESBA proposals, stakeholders raised questions about how the proposals differ from and interact with the requirements for a firm's system of quality management. The IESBA consultation papers include a linkages paper that explains the key linkages and differences between ISQM 1[2] and the IESBA proposals.

A key difference is their scope. ISQM 1 applies to a firm's system of quality management for audits, reviews, assurance or related services engagements, whereas the IESBA proposals focus on how a firm can establish and maintain a strong ethical culture across all services of firms required to comply with the Code, regardless of the services they provide. Because each firm has designed and implemented its system of quality management differently, the extent of any changes required to establish and maintain an ethical culture in accordance with the proposals will vary. Each firm will need to evaluate the proposals against its own circumstances, including its size, structure, range of services and existing quality management arrangements.

The IESBA's exposure draft gives you an opportunity to comment on the proposed revisions.

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

Consider whether the proposals are relevant and appropriate for New Zealand

The XRB has not yet made a decision on whether the IESBA proposals should be reflected in the International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) (PES 1). This section sets out the New Zealand context so that you can tell us whether the proposals are relevant and appropriate for New Zealand.

While the proposals respond to international incidents, the underlying risks are also relevant to New Zealand. In New Zealand there is ongoing recognition of the importance of firm culture to maintain and enhance trust and confidence in assurance. This is evident in steps taken by New Zealand accounting firms, such as appointing independent directors and introducing transparency reporting.

Stakeholder views during the development of the proposals have included questions about whether and how ethical culture should be addressed through standard-setting, and the enforceability of such an approach or whether issuing guidance is more appropriate. This is

[2] PES 3, is the New Zealand equivalent

particularly relevant in New Zealand, as PES 1 is secondary legislation and must therefore be drafted with enforceability in mind.

In line with its mandate, the External Reporting Board issues PES 1, which applies to firms that perform audits, reviews, assurance or related services engagements.

The IESBA proposals would apply to all accounting firms required to comply with the Code, whether they provide assurance services, other services or a mixture of both.

PES 1 has a narrower scope than the IESBA proposals. If the firm culture and governance proposals were reflected in PES 1, they would apply to firms required to comply with XRB standards that perform audits, reviews, assurance or related services engagements. They would still apply firm-wide, across all service lines. Unethical behaviour in any part of a firm can undermine public trust in external reporting.

The scalability and proportionality of the IESBA proposals is also relevant for New Zealand. The New Zealand market is a mix of single and multi-service assurance and audit providers. The diversity of the New Zealand market makes the scalability and proportionality of the proposals important considerations in assessing the workability in New Zealand.

Given the New Zealand context, do you consider that the IESBA proposals are relevant and appropriate for PES 1? If so, are they clear and workable for New Zealand? If not, or if changes would be needed, what would improve their relevance, clarity or application specifically for New Zealand?

Assess the potential benefits and costs

In developing the proposals, IESBA considered the qualitative standard setting characteristics set out in the Public Interest Framework[3] which is outlined in its explanatory memorandum.

In addition to the IESBA's international considerations, we have considered the expected benefits and costs of the proposals in the New Zealand context, as follows:

Potential benefits

Enhanced ethical behaviour and public trust (Users)

- The proposals could strengthen the ethical foundation of New Zealand assurance practitioners and help protect public trust. Proactively addressing risks to trust, supports continued confidence in independent assurance over financial and non-financial information, enabling informed user decision making.

Stronger ethical culture and governance (Assurance practitioners, firms, their people and clients)

- The proposals could help to mitigate potential regulatory, financial, reputational and other adverse consequences of unethical behaviour either locally, within global networks or with cross-border clients.

Coherence across New Zealand's professional and regulatory environment (Users and Assurance Practitioners)

- The proposals align with New Zealand's legislative and institutional expectations, supporting consistent ethical behaviour by assurance practitioners performing auditing and assurance engagements, including sustainability assurance engagements.

Practical benefits for multinational firms and cross-border engagements (Assurance firms and practitioners)

[3] 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 proposals align with international ethical and independence requirements and reduce the need for reconciliations between local and global ethical requirements. Assurance practitioners within global networks or with cross-border clients will benefit from consistent methodologies.

Potential costs

Implementation effort for New Zealand entities and firms (Assurance Practitioners)

- The proposals introduce new ethical requirements that will require firms of assurance practitioners to review and update ethical policies and training programmes to ensure these requirements are actively considered across the firm for all service lines. The extent of this effort may vary, as it is likely to depend on how each firm has designed and implemented its system of quality management, and on how the proposals interact with Professional and Ethical Standard 3 Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements (PES 3). The IESBA's linkages paper explains the key linkages and differences between ISQM 1 and the IESBA proposals.

Monitoring costs (Assurance Practitioners)

- Implementing firm culture and governance provisions may require firms to establish or enhance processes for promoting ethical behaviour and monitoring compliance with the relevant requirements.

Enforceability of ethical culture requirements

- Because PES 1 is secondary legislation in New Zealand, there maybe a risk that requirements relating to ethical culture are enforced inconsistently, and a question about whether ethical culture can be effectively enforced through a standard.

Clarity of what is required (Assurance Practitioners)

- It may be unclear what firms are actually required to do. This could lead to differing interpretations, additional effort to determine how the provisions should be applied in practice, and inconsistent practice across firms.

Proportionality challenges for smaller entities (Reporting Entities and Assurance Practitioners)

- Costs associated with understanding and applying the proposals may be proportionately greater for smaller firms and sole practitioners. There is also a question about whether the provisions sufficiently address scalability and proportionality, including whether they can be applied by firms of different sizes, structures and service lines without placing a disproportionate burden on smaller firms.

Do you consider that the expected benefits of the proposed amendments outweigh the implementation costs and other practical challenges? If not, why not?

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

DRAFT

XRB | Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

Template: Assessment for Consistency Accountability Statement

Reference number	[Standard number]
Subject	**Regulatory Standards Act assessment to support Consistency Accountability Statement**
Related to	**[Name of the standard]**
Date of technical board discussion of this assessment	3 December 2026
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.

The scope of XRB's statutory powers

5. 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

6. 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.

7. 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.

8. 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.

9. 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.

10. [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.

11. This RS Act Assessment documents our processes and analysis in accordance with the principles. We have evaluated [Standard number] against all principles.

12. 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

13. 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

14. [Standard number] [and the International Board's Basis for Conclusions] will be published on the Assurance standards page [add hyperlink] on the XRB's website on the date that it is gazetted.

15. All extant XRB standards are searchable using the XRB Standards Navigator.

Clarity

16. [Standard number] will apply to assurance practitioners and their firms. It also needs to be understood by regulators of those assurance practitioners and firms.

17. [Standard number] is a New Zealand equivalent of [number and name of the international standard] which was issued by the International Ethics Standards Board for Accountants (IESBA)]. There are significant differences between the drafting approach and style used by IESBA and by the Parliamentary Counsel Office.

18. 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 other standards, reduces the risk of disputes and reduces compliance costs. 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.

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

19. 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

20. 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

21. 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

22. 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.

23. 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

24. 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

25. 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

26. 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

27. 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

28. 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]

29. [Standard number] will directly and materially affect:
    (a) Assurance practitioners[1]
    (b) Firms of assurance practitioners
    (c) Users of assurance opinions including but not limited to investors, shareholders, lenders, regulators and oversight bodies, those charged with governance.
30. We took the following steps to consult:
    (a) Provided an overview of the project at the Audit and Assurance Need to know in October 2026 so that stakeholders were aware of proposed upcoming changes to the Code.
    (b) Developed a dedicated page for Firm Culture and Governance consultation on the XRB website
    (c) Issued the IESBA consultation papers and a New Zealand wrap around outlining how the proposals apply in New Zealand and domestic cost/benefit considerations.
    (d) Hosted a webinar to provide an overview of the proposals
    (e) Held forums with assurance practitioners to discuss proposals

S9(j): Evaluation

31. 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.
32. We have not identified any inconsistencies in [Standard number] with this principle.

[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.

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.

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

34. The amendments respond to recurring high profile cases of unethical behaviour by accounting firms internationally. Unethical behaviour can significantly damage a firm's reputation, impacting the firm and its employees, and may reduce public trust and confidence.

35. The amendments provide a global baseline that promotes, supports and reinforces high standards of ethical behaviour, helping firms to maintain a reputation for strong ethics, mitigate the risks of unethical behaviour and strengthen public trust and confidence.

36. There were mixed views on an appropriate response. Some stakeholders consider the current code of ethics adequate or that a firm's system of quality management already addresses firm culture and governance, while others differed on whether the response should be through revisions to PES 1 or by way of non-authoritative material.

37. While the amendments respond to issues internationally, the underlying risks are also relevant to New Zealand. In New Zealand there is ongoing recognition of the importance of firm culture to maintain and enhance trust and confidence in assurance. This is evident in steps taken by New Zealand accounting firms, such as appointing independent directors and introducing transparency reporting.

38. Concerns raised around enforceability of a standard setting approach is particularly relevant in New Zealand, as PES 1 is secondary legislation, and must therefore be drafted with enforceability in mind.

39. As the New Zealand market is a mix of single and multi-service assurance and audit providers, scalability and proportionality of the amendments is also particularly relevant for New Zealand..

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.

40. As described in paragraph 36, some stakeholders consider that the code and/or a firms system of quality management already addresses firm culture and governance. An alternative view, is that although the Code of ethics already contains the fundamental

principles and broadly mentions some elements of firm culture and governance, it does not address ethical culture in a holistic, comprehensive manner. The firms system of quality management applies to audits, reviews, assurance and related services engagements, whereas the amendments focus on how a firm can establish a strong ethical culture across all service lines.

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.

41. It is in the public interest to issue [NZ standard number] for the reasons stated above explaining why the XRB generally adopts international standards as a whole except where changes have been considered appropriate having regard to New Zealand circumstances and New Zealand law and otherwise, the potential adverse consequences of departing from the international wording in individual standards.

42. 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.

43. 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.

44. Both the development of non-authoritative material and the appropriateness of a standard setting response will be explored.

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.

45. The purpose of [Standard number] is to improve the overall quality of professional and ethical standards.

46. 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.

47. We have not identified any fairness or equity issues.

S9(k): Implementation

The principle

48. 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.

49. 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

50. 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.

51. 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

52. The principle states that the legislation should be the most effective, efficient and proportionate response to the issue concerned that is available.

53. 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.

54. 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	**[To complete]**

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 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 Ethics Standards Board for Accountants (IESBA) issues ethics and independence standards for professional accountants and assurance practitioners. In developing its standards, the IESBA considers the qualitative standard-setting characteristics set out in the Public Interest Framework.[2]

For international ethical standards, the counterfactual is that New Zealand would not adopt the relevant IESBA standard or amendment. This could reduce global consistency in ethical and independence standards, create additional complexity for firms operating across jurisdictions, and limit alignment with internationally recognised expectations for ethical conduct and independence. Therefore, the XRB needs to adopt all standards and amendments issued by the IESBA that are relevant to the XRB's mandate, subject to New Zealand's due process.

The IESBA's Public Interest Framework identifies the qualitative characteristics of standards that are responsive to the public interest. The IESBA 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

• **Stronger ethical culture and governance (Firms, their people and clients)** The standard support firms to foster an ethical culture and establish appropriate governance mechanisms to mitigate unethical behaviour that can lead to substantial harm to:
  ○ The particular firm in terms of potential regulatory sanctions, financial penalties and damage to its business and reputation
  ○ Its people in terms of morale, motivation to continue pursuing their careers with the firm, and potential job losses
  ○ A client or clients in terms of unintended adverse consequences to them and their shareholders
  ○ Public trust and confidence in the firm as well as the broader accountancy profession.
• **Proportionate and scalable (Reporting Entities and Assurance Practitioners):** The elements of the Firm Culture and Governance framework are intended to be scalable and proportionate.

[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.

Major expected costs
• **Implementation costs (Assurance Practitioners and Reporting Entities):** Adoption of the standard may require updates to internal policies, systems, additional staff training and documentation which creates additional compliance and monitoring costs which may add to the cost of audit and assurance services to reporting entities.

Quantitative Assessment

The IESBA 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
Enhanced ethical behaviour and public trust (Users) • The proposals could strengthen the ethical foundation of New Zealand assurance practitioners and help protect public trust. Proactively addressing risks to trust, supports continued confidence in independent assurance over financial and non-financial information, enabling informed user decision making. *Stronger ethical culture and governance (Assurance practitioners, firms, their people and clients)* • The proposals could help to mitigate potential regulatory, financial, reputational and other adverse consequences of unethical behaviour either locally, within global networks or with cross-border clients. *Coherence across New Zealand's professional and regulatory environment (Users and Assurance Practitioners)* • The proposals align with New Zealand's legislative and institutional expectations, supporting consistent ethical behaviour by assurance practitioners performing auditing and assurance engagements, including sustainability assurance engagements. *Practical benefits for multinational firms and cross-border engagements (Assurance firms and practitioners)* • The proposals align with international ethical and independence requirements and reduce the need for reconciliations between local and global ethical requirements. Assurance practitioners within global networks or with cross-border clients will benefit from consistent methodologies.
Major expected costs

Implementation effort for New Zealand entities and firms (Assurance Practitioners)

- The proposals introduce new ethical requirements that will require firms of assurance practitioners to review and update ethical policies and training programmes to ensure these requirements are actively considered across the firm for all service lines. The extent of this effort may vary, as it is likely to depend on how each firm has designed and implemented its system of quality management, and on how the proposals interact with Professional and Ethical Standard 3 Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements (PES 3). The IESBA's linkages paper explains the key linkages and differences between ISQM 1 and the IESBA proposals.

Monitoring costs (Assurance Practitioners)

- Implementing firm culture and governance provisions may require firms to establish or enhance processes for promoting ethical behaviour and monitoring compliance with the relevant requirements.

Enforceability of ethical culture requirements

- Because PES 1 is secondary legislation in New Zealand, there maybe a risk that requirements relating to ethical culture are enforced inconsistently, and a question about whether ethical culture can be effectively enforced through a standard.

Clarity of what is required (Assurance Practitioners)

- It may be unclear what firms are actually required to do. This could lead to differing interpretations, additional effort to determine how the provisions should be applied in practice, and inconsistent practice across firms.

Proportionality challenges for smaller entities (Reporting Entities and Assurance Practitioners)

- Costs associated with understanding and applying the proposals may be proportionately greater for smaller firms and sole practitioners. There is also a question about whether the provisions sufficiently address scalability and proportionality, including whether they can be applied by firms of different sizes, structures and service lines without placing a disproportionate burden on smaller firms.

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 agree that the expected benefits of the proposed amendments outweigh the implementation costs and other practical challenges? If not, why not?	[To complete]	[To complete]

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

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.

DRAFT

XRB | Te Kāwai Ārahi Pūrongo Mōwaho EXTERNAL REPORTING BOARD

NZAuASB Board meeting summary paper

Meeting date:	3 December 2026
Subject:	**Technology Update**
Date:	17 November 2026
Prepared by:	Lisa Thomas
Reviewed by:	Karen Tipper and Misha Pieters

☐ **Action Required** ☒ **For Information Purposes Only**

Agenda item objectives

1. The objective of this agenda item is to update the Board on international developments and on our ongoing work to support implementation of the auditing and assurance standards in light of fast moving technology developments.

XRB approach

2. The XRB's Statement of Intent identifies emerging technologies as relevant to keeping standards fit for purpose and supporting effective adoption and implementation. We aim to continue to proactively consider emerging global and domestic trends and the risks and opportunities for external reporting and assurance, such as digital reporting, use of AI and other technologies.
3. To support this focus on emerging technologies we have a stakeholder engagement plan, structured around 3 pillars:
   a) *Developments and stakeholder engagement.* Actively monitoring emerging technologies
   b) *Proposed changes to standards.* To ensure principles in standard setting evolve and remain fit for purpose, and that there are no real or perceived barriers for the use of technologies
   c) *Guidance to support implementation.* To facilitate the appropriate use of technology, enhance the quality of assurance engagements, and maintain trust and confidence.
4. Ensuring the standards remain fit for purpose for emerging technologies is a key component of the Audit Evidence and Risk Response consultation discussed at agenda item 9.

IAASB quality management guidance

5. The IAASB is developing guidance to support the consistent application and effective application of ISQM 1 and ISA 220 (Revised) when Gen AI enabled technological tools are used in audit and assurance engagements. This work aligns with the third pillar of our stakeholder engagement plan *Guidance to support implementation* and responds to stakeholder feedback about what practitioners should consider when using technological tools in audit engagements.

6. The IAASB has issued the first in its technology quality management guide series. The *Introduction to the Guide Series* and *Guide 1: Common Conceptual Foundation*. The introduction contains contextual information about the guide series as a whole: its purpose, status and audience, why AI-enabled technological tools warrant focused guidance, scalability and proportionality, and how the series is organised.

7. Guide1:

   a) Explains when a use of an AI enabled technological tool is within the scope of the guide series

   b) Sets out the foundation in ISQM 1 and ISA 220 (Revised) at the firm and engagement levels

   c) Describes the life cycle of AI-enabled technological tools at the firm

   d) Explains how the firm applies its risk assessment process to AI-enabled technological tools, including risk assessment considerations.

8. Guide 1 will be featured in our next technology alert. The guidance is timely for New Zealand practitioners as the use of AI-enabled technological tools develops and firms consider how the associated risks should be addressed through their systems of quality management and individual engagements. The Introduction includes a section on scalability and proportionality. Guide 1 is a conceptual foundation. We did not identify a need for further action related to scalability and application in New Zealand, however will highlight that the guide series is intended to support scalable and proportionate quality management and is relevant to all firms of different sizes, structures and technology maturity in our communications.

9. As further guides are released, we will continue to update the Board and consider whether any additional New Zealand-specific guidance or support is needed to assist practitioners to apply the guidance in practice. Guide 2 covering pre-deployment design, evaluation and enablement is expected to be approved in December 2026.

IESBA guidance

10. At its September meeting IESBA discussed initial findings on strategic alliances between accounting firms and large AI and other technology providers. The IESBA agreed that the scale, intensity, pace and strategic importance of these alliances, together with AI's growing autonomy and reach, warranted assessing the ethical and independence implications and appropriate responses of these alliances. A terms of reference will be considered at the December meeting.

11. At its December meeting IESBA will discuss developing non-authoritative material on Generative AI and Agentic AI using scenarios to connect ethical threats, fundamental principles and relevant technology characteristics. We will continue to monitor the development of this guidance, assess its relevance for New Zealand, and promote key messages relevant to audit and assurance practice in New Zealand.

Stakeholder engagement

12. Staff are planning a virtual panel event in March 2027 to discuss how standard setters, including the NZAuASB, should respond as technology evolves. This session is intended to gather stakeholder views on the opportunities, risks and implications of emerging technologies such as AI and automation for reporting and assurance.

13. The panel is designed to give a wide range of perspectives including governance, standard setting, shareholders, practitioners and a technology expert and to provide input into the upcoming IAASB and IESBA Strategy and workplan consultations.

Recommendations

14. For the Board to note the UPDATE.

Material presented

- Board meeting summary paper

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

NZAuASB Board meeting summary paper

Meeting date:	3 December 2026
Subject:	**Sustainability assurance update**
Date:	18 November 2026
Prepared by:	Anna Herlender
Reviewed by:	Karen Tipper, Misha Pieters

☐ **Action Required** ☒ **For Information Purposes Only**

Agenda item objectives

1. The objective of this agenda item is for the Board to NOTE the sustainability assurance implementation update, including the updated GHG Snapshot.

Matters to consider

Supporting adoption and implementation of sustainability assurance

2. Staff continue to support adoption and implementation of International Standard on Sustainability Assurance (New Zealand) 5000, *General Requirements for Sustainability Assurance Engagements* (ISSA (NZ) 5000) and Professional and Ethical Standard 1 (PES 1) ahead of the 15 December 2026 application date.
3. To date, the following domestic guidance has been issued:
    - Transitional questions and answers (July 2026)
    - Materiality questions and answers (August 2026)
    - Key differences between Part 5 and PES 1 (September 2026)
    - Guide to the Code (September 2026)
    - Rotation provisions for sustainability assurance (November 2026).
4. The guidance is promoted in monthly sustainability assurance updates.
5. Staff continue to leverage international material and to draw stakeholders' attention to specific matters relevant to New Zealand. Our focus is on supporting implementation of international standards for engagements over GHG emissions disclosures required by the Financial Markets Conduct Act 2013.
6. The table below sets out the updated sustainability assurance implementation plan. The timing of the items based on international material reflects when the international standard setters are expected to issue their guidance.

Topics (working title)	Format (based on international or internally produced)	Date
Illustrative GHG assurance reports	Domestic guidance	December 2026
Reminder that standards are applicable for periods beginning on or after 15 December 2026	XRB Sustainability Assurance Update	15 December 2026
Sustainability assurance (leveraged from IAASB FAQs due for release in Q4 2026/Q1 2027):		
Working with others	IAASB guidance	February 2027
Group assurance and value chain	IAASB guidance	March 2027
Estimates and forward information	IAASB guidance	April 2027

7. The illustrative GHG assurance reports are now planned for issue in early December 2026. Following the October Board meeting, staff shared the draft combined assurance report with practitioners, who were supportive of the overall approach and provided useful feedback.

8. Before finalising the illustrative reports, we are addressing this feedback by:

   - simplifying references to the applicable criteria; and
   - further clarifying that the optional paragraph “What is not subject to assurance” (discussed by the Board in October) should be included only where helpful, as some practitioners found it confusing or difficult to apply.

Updated GHG Snapshot

9. The GHG Snapshot summarises key messages from our ongoing monitoring of GHG assurance reports and climate statements. The updated Snapshot, which includes analysis of assurance over climate statements lodged with the Companies Office until the end of October 2026, is included in Appendix 1.

10. Our main observations include:

    - Ten entities obtained voluntary assurance beyond the mandatory GHG emissions disclosures: two over whole climate statements, one over governance and baseline year, three over market-based Scope 2 emissions and four over GHG inventory reports.
    - We identified one assurance report that early adopted ISSA (NZ) 5000. The report was issued by an Australian practitioner for a New Zealand climate reporting entity and also referred to the Australian equivalent, ASSA 5000. The engagement covered the mandatory GHG emissions disclosures, plus voluntary assurance over governance disclosures and the baseline year for GHG emissions.
    - More than half of entities (55%) used the reporting adoption provision and did not report some or all Scope 3 GHG emissions.
    - Where entities reported only part of their Scope 3 GHG emissions, those disclosures were usually not assured.

- Most entities that reported their full Scope 3 GHG emissions obtained assurance over them.
- Three reports included a new type of Other Matter paragraph, referring to restatements of comparatives that were not subject to assurance.

Recommendations

11. We recommend that the Board NOTE the sustainability assurance implementation update, including the updated GHG Snapshot.

Material presented

- Board meeting summary paper

Appendix 1: Updated GHG Snapshot

This snapshot covers climate statements for reporting periods ending on or after 31 December 2025 that were lodged with the Companies Office by 31 October 2026. We reviewed 44 climate statements and assurance reports.

Level of assurance

- 34 entities obtained limited assurance
- 3 entities obtained reasonable assurance
- 7 entities obtained mixed assurance

Assurance provider

- 37 entities engaged their statutory auditor
- 5 entities engaged another accounting firm
- 2 entities engaged another assurance provider

Scope reported

- 5 entities reported only Scope 1 and 2 GHG emissions
- 19 entities included some Scope 3 GHG emissions
- 20 entities reported full Scope 1, 2 and 3 GHG emissions

The adoption provision relating to Scope 3 GHG emissions was used by 24 entities, which either did not disclose Scope 3 GHG emissions or disclosed only part of them.

Scope assured

- 18 entities obtained assurance over Scope 1 and 2 only
- 8 entities obtained assurance over Scope 1, 2 and some Scope 3
- 18 entities obtained assurance over full Scope 1, 2 and 3

Of the 20 entities that reported full Scope 3 GHG emissions, 18 obtained assurance over these disclosures.

Where entities reported only part of their Scope 3 GHG emissions, those disclosures were usually not assured. Of the 19 entities that reported partial Scope 3 GHG emissions, eight obtained assurance over Scope 3 disclosures (six over all the emissions disclosed and two over only a subset).

Qualifications

No qualifications were identified.

Communication tools in assurance reports

Use of communication tools was lower than in the previous year:

- Twelve reports included Key Matters. Three of those reports included two Key Matters, giving a total of 15 Key Matters. The Key Matters reported in 2026 were mostly consistent with those reported in the previous year. Where the assurance provider changed, different Key Matters were usually identified.

  The Key Matters included:

  - exclusion of emissions relating to fuel stored and transported from an entity's Scope 3 GHG inventory;

  - classification of emissions associated with purchased heating and cooling;
  - specific Scope 3 GHG emissions categories, including use of sold products, and upstream transportation and distribution;
  - presentation of investee portfolio emissions as financed emissions;
  - use of the spend-based method to measure Scope 3 GHG emissions (the most common matter);
  - geothermal emissions within Scope 1 GHG emissions;
  - estimation of on-farm GHG emissions; and
  - organisational and operational boundary adjustments.
- Emphasis of Matter paragraphs included:
  - additional emission sources reported only for the current year;
  - inclusion of market-based emissions in the base year emissions;
  - methodology for market-based electricity;
  - classification of public transport emissions;
  - organisational boundary that differs from financial consolidation; and
  - FMA exemption allowing one climate statement to be prepared for two entities while they remain stapled.
- Other Matter paragraphs:
  - most related to comparatives that were unassured, assured by another practitioner or assured under a standard other than NZ SAE 1;
  - three referred to restatements or revisions of prior years that were not subject to assurance; and
  - one referred to the use of the latest emission factors released by the Ministry for the Environment.
- Inherent uncertainty paragraphs used standard wording.

Voluntary assurance

Ten entities obtained voluntary assurance:

- GHG inventory reports (4 entities)
- market-based Scope 2 GHG emissions (3 entities)
- governance and baseline year (1 entity)
- whole climate statements (2 entities)