

ISA (NZ) for Less Complex Entities

New Zealand adoption of a standard for audits of Less Complex Entities

Consultation document



November 2024

Consultation closes 27 February 2025





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PART ONE: Introduction





1.

What is this consultation about?

The External Reporting Board (XRB) has issued this consultation document to seek feedback on:

- **Whether to adopt the International Standard on Auditing (ISA) for Less Complex Entities (LCE) in New Zealand.**
- **The applicability of the standard in New Zealand.**
- **If and how to incorporate the audit of service performance information within the New Zealand Standard.**

1. What is the ISA for LCE?

The International Auditing and Assurance Standards Board (IAASB) has issued a new auditing standard, the *International Standard on Auditing for Audits of Financial Statements of Less Complex Entities* (ISA for LCE). The ISA for LCE is a stand-alone auditing standard available for auditors to use when auditing less complex entities.

The standard contains all requirements necessary to obtain reasonable assurance about whether the financial statements of a less complex entity, as a whole, are free from material misstatements, whether due to fraud or error. If adopted in New Zealand, it will be referred to as ISA (NZ) for LCE.

2. Why are we consulting on this?

While the auditing standards (ISA (NZ)) are scalable, we have heard concerns that these standards are getting increasingly complex and written in the context of highly regulated, large, listed entities. In New Zealand, the type of entities that are required to have an audit varies considerably from complex listed companies to simple entities. There are many less complex entities that have audits of financial statements, including charities and sports clubs, schools and early childhood centres.

The XRB has previously explored alternative products to enhance trust and confidence in the reporting of less complex entities. We may continue to explore further if we hear support for an alternative to an audit.

The ISA for LCE is aimed at addressing concerns that the auditing standards are getting too long and complex for the audits of less complex entities. During the development of the ISA for LCE we consulted with stakeholders and heard mixed views regarding its use in New Zealand as well as support from many for adoption. Now that the ISA for LCE has been issued globally, we are consulting on whether it is suitable for New Zealand and if auditors would use this standard.

3. Seeking Your Feedback

This consultation explores whether we should adopt the ISA for LCE, how and if it should be adapted for New Zealand, and what types of entities the standard should apply to. Specific consultation questions can be found on page 16.



This consultation document should be read in conjunction with the Exposure Draft on our website.

2.



How to provide feedback

Responding to 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, whether supportive or critical, as both supportive and critical comments are essential for us to reach a balanced view.

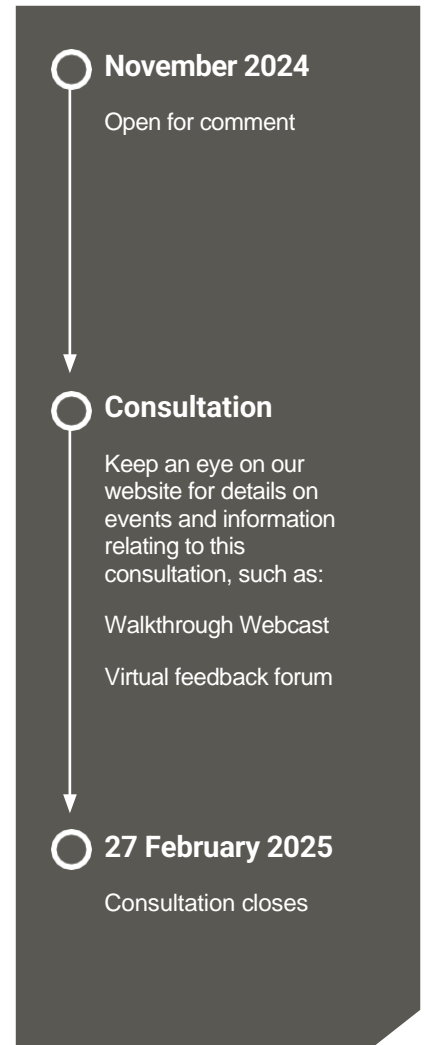
All comments received will be considered.

Making a submission

Submissions can be provided via any of the avenues below:

- Email us: assurance@xrb.govt.nz
- On the 'Open for Comment' page on our [website](#)
- [Complete the online form on our website](#)
- Comment on our [LinkedIn page](#)

The consultation closes on 27 February 2025



Publication of submissions, the Official Information Act and the Privacy Act

The information you send to us in a written submission or on an online form will be used by the XRB to help inform our consultation for this exposure draft. We intend to publish all submissions on our website, unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the XRB's website. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or in full. The Privacy Act 2020 also applies.

If you have an objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so.



PART TWO: **EXPLORING ADOPTION IN NEW ZEALAND**

3.



3.1 How we got here

We have heard concerns regarding the scalability of the auditing standards. The idea of a separate auditing standard for some types of audits is new. The XRB has explored whether a “one size fits all approach” continues to be fit for purpose to maintain trust and confidence to reasonable assurance, being mindful of the broad range of entities that apply the XRB’s standards. We have heard various views on the merits and risks.

In 2019, we explored the international options being discussed by the IAASB to address challenges in applying the ISAs with New Zealand stakeholders. The XRB’s submission, informed by outreach, was strongly supportive of an international project to respond to the challenges of applying the ISAs in audits of LCEs, noting that this was of increasing relevance to all assurance practitioners.

In 2021, we exposed the IAASB’s proposed ISA for LCE. The idea of a separate standalone standard to assist auditors in auditing LCEs was supported by auditors in New Zealand. Auditors told us the condensed materials and structure of the standard, which follows the flow of an audit, enhanced readability, and focused on the relevant requirements for a LCE. However, concerns were raised by some. These included that a standalone standard might signal that an audit using the ISA for LCE was less than a full ISA audit or imply a two-tier audit environment with potential to increase the expectation gap. Given that the ISA for LCE and full ISAs provide the same level of assurance, there may be reluctance in the market to use the ISA for LCE.

When the ISA for LCE was finalised in 2023, we surveyed stakeholders on whether they would support the adoption of the ISA for LCE in New Zealand. The majority who responded were supportive of adoption and supportive of the development and inclusion of a part to address the audit of service performance information. Informed by ongoing feedback, the XRB has developed this consultation document and exposure draft.

To make a final decision as to whether New Zealand should adopt the ISA for LCE, we need to be clear on when it will be used, the benefits of introducing the standard and the associated costs or risks of doing so.

3.2 Weighing up the benefits and costs of adoption

The IAASB notes that key benefits of the ISA for LCE include:

- It is a standalone standard that is proportionate and tailored to the specific needs of an audit of LCEs.
- It will help maintain confidence in financial reporting.
- It will promote the consistent application of auditing standards to audits of LCEs.
- It provides the same level of assurance as an audit performed under the ISAs – Reasonable assurance.

Benefits

Potential benefits for New Zealand include:

- Suited for New Zealand’s environment: New Zealand has many less complex entities that are either legally required to have their financial statements audited or seek out audits voluntarily.
- Proportionate and Tailored: We are aware of capacity constraints affecting the audit profession. Some view the current ISAs as geared towards large, regulated entities, making the standards increasingly long and complex, and challenging to apply to audits of less complex entities. The ISA for LCE is specifically designed for the needs of audits of less complex entities, focusing on relevant requirements that are proportionate to the typical nature and circumstances of a less complex entity. We consider that a single standalone standard may be easier to navigate. The ISA for LCE may help auditors deliver consistent high-quality audits for LCEs as it emphasises performing the right work in the right areas.

- Aligned with ISAs: The standard contains requirements that are built on the underlying concepts in the ISAs. This ensures that the audit of a less complex entity remains consistent with the objectives of the ISAs, and results in the same level of reasonable assurance.
- Clear, Understandable and Concise: The standard is written using plain language. A single standard that follows the flow of the audit may make it easy for auditors to understand and implement. Ease of access may enhance auditors' ability to quickly grasp its requirements and apply them consistently. Some expect the ISA for LCE may increase audit efficiency and effectiveness.

The XRB considers that the ISA for LCE may be responsive to calls to address scalability concerns for audits of less complex entities.

Costs or Risks

While the ISA for LCE presents possible benefits, there are also potential costs or risks that might arise from its adoption. Some of the potential issues include:

- Perception of Reduced Audit Quality: The audit performed in accordance with the ISA for LCE might be perceived as a lesser quality or scaled down audit. This could create the perception of a "two-tier" auditing environment. However, both the ISA and ISA for LCE enable the auditor to provide reasonable assurance, the ISA for LCE does not reduce audit quality but is tailored to suit the characteristics of an LCE.
- Risks of maintaining two suites of auditing standards: The XRB would need to maintain two suites of auditing standards going forward. The ISA for LCE is to be maintained and updated internationally, reducing standard setting costs. However, the timing of the maintenance may exacerbate concerns of a perceived "two-tier" audit environment. Maintenance is explored in more detail below.
- Education and training costs: There may be increased training costs for auditors and firms that use both the ISAs (NZ) and the ISA (NZ) for LCE. There is an increased need for education of users to mitigate the risk of an expectation gap and marketplace confusion. This may result in additional costs on audit firms.
- Audit fee pressures: There may be an expectation that audits conducted under the ISA for LCE will be "cheaper" compared to full ISA audits. This could lead to pressure for auditors to lower fees, potentially impacting the quality of the work. It is important to emphasise that the tailored nature of the requirements of the ISA for LCE doesn't necessarily translate into lower fees, as the level of assurance remains the same.
- Specialisation risk: There are questions about the long-term implications for auditors who exclusively perform audits using the ISA for LCE. If only using the ISA for LCE, auditors may miss opportunities to audit more complex entities. This could pose challenges when encountering more complex entities or audit scenarios. The Code of Ethics (PES 1) requires assurance practitioners to attain and maintain professional knowledge and skill at the level required to ensure that a client receives competent assurance services.
- Complexity reassessment risk: There is a risk that an entity initially assessed as less complex may subsequently be determined to no longer meet the qualitative characteristics of a LCE. This would necessitate use of the full ISAs and potentially a significant rework of the audit file in that year. The IAASB is expected to issue guidance to assist in a transition to the full ISAs mid-engagement.
- Not all jurisdictions will adopt the ISA for LCE. The decision whether to adopt is up to each jurisdiction, informed by the types of entities that are required to be audited. Some countries have already decided not to adopt the ISA for LCE. The global context is explored in more detail below.

Maintenance of the ISA for LCE

One of the concerns regarding the adoption of the ISA for LCE is the perception of a "two-tier" audit environment. The way in which the standard is maintained globally may further impact perception.

Maintenance of the ISA for LCE refers to the ongoing process of keeping the standard up-to-date, and in line with revised or new ISAs. The IAASB has committed to a 3-year period of stability. During this initial 3-year period, until December 2028, there will be no revisions to the ISA for LCE. i.e., no changes to keep the ISA for LCE up to date with changes in the ISAs. This initial period of stability was considered necessary to provide auditors time to adopt and implement the standard before introducing any revisions.

After the initial period of stability, the IAASB is committed to maintaining the ISA for LCE as the ISA for LCE must remain up to date, and to the greatest extent possible, consistent with the ISAs. However future revisions to the ISA for LCE will not happen at the same time as revisions to the ISAs. Only once new or revised ISAs are finalised, will the IAASB consult on the relevant revisions to the ISA for LCE. This means that there will be an on-going time lag in application between any changes made to the full ISAs and the ISA for LCE.

The expected timeframes are demonstrated through an example. The revisions to ISA 570 *Going Concern* are expected to be finalised in December 2024 and are anticipated to be applicable from June 2026. During this time the ISA for LCE will be under a period of stability. After this period, there will be an exposure draft to seek views on new or revised requirements, to maintain consistency between the ISAs and the ISA for LCE. Any changes would not be applicable for audits using the ISA for LCE until at least December 2028. This may be seen as an issue in that the audit requirements will be inconsistent between the ISA and ISA for LCE in respect to going concern during this period.

We are interested in how the timing of the maintenance of the ISA for LCE impacts your views on adoption.

Global context

One of the reasons that the IAASB developed the ISA for LCE was to prevent global divergence in audits of less complex entities, as some countries were starting to develop their own auditing standards for LCEs. It is optional for jurisdictions to adopt the ISA for LCE. i.e., New Zealand can choose not to adopt the ISA for LCE.

Each country has its own regulatory regime that specifies who must have an audit. Each country will determine independently whether the ISA for LCE is appropriate for their jurisdiction. The ISA for LCE may not be a good fit where audits of less complex entities are not required or where compilation or other products are used instead of an audit. Both Australia and Canada have chosen not to adopt the ISA for LCE.

Practitioners in Australia did not support the adoption of the standard, as they considered that current guidance is sufficient for their needs. The view in Australia was that while the ISA for LCE may be a valuable educative and training tool and may allow some practitioners to focus on requirements relevant to the typical nature and circumstances of the audit of an LCE, these benefits are outweighed by public interest considerations including:

- the perception that an LCE standard is a lesser quality or scaled down audit product,
- a possible expectation of reduced work effort, despite the level of assurance being the same, and
- the time lag in updating the LCE standard.

We understand that in Canada, other services, such as reviews or compilations are commonly used in lieu of an audit for many less complex entities. When audits are performed and specific to adoption of the ISA for LCE, there were concerns:

- regarding transitioning from the ISA for LCE to the ISAs, and
- that the ISA for LCE does not include requirements when the auditor intends to use a report provided by a service auditor of a service organisation as audit evidence. This was considered to restrict the use of the ISA for LCE in Canada.

We understand that Canada was concerned that having two sets of auditing standards potentially raises public interest issues, creating the perception of a new level of assurance, adding to the confusion in the marketplace. Therefore, Canada considered the standard does not adequately meet the needs of Canadian auditors.

Although some countries have chosen not to adopt the standard, we have heard support to adopt it in New Zealand from auditors of less complex entities and the Auditor-General. The ISA for LCE may be suited for New Zealand's environment, given there are many less complex entities that are either legally required to have their financial statements audited or seek out audits voluntarily. This differs from Australia where practitioners were less supportive. It also differs from Canada, where many less complex entities are not audited. However, we recognise that there are mixed views from some of our stakeholders.

1. Do you agree with the potential benefits and costs/risks as outlined? Are there other benefits or costs and risks to consider? How might the issues identified be mitigated?
2. Do you consider that the benefits of adopting the ISA for LCE in New Zealand outweigh the costs and risks of doing so? Why?
3. Will you or your firm use the ISA (NZ) for LCE? When? Please provide your rationale.
4. Does the timing of the maintenance of the ISA for LCE affect your view on its adoption? Why?

3.3 Applicability in New Zealand

The ISA for LCE is designed to be proportionate to the nature and circumstances of a LCE. It does not address complex circumstances. Compliance with the requirements of the ISA for LCE would not be sufficient to obtain sufficient appropriate audit evidence to support a reasonable assurance opinion for a complex entity, because insufficient or inappropriate consideration would be given to the complex matters or circumstances.

Part A, *Authority*, of the standard describes three categories of limitations for use:

1. **Specific Prohibitions:** Specific classes of entities for which the use of the proposed standard is prohibited. Examples include a listed entity, an entity one of whose main functions is to take deposits from the public, and an entity one of whose main functions is to provide insurance to the public.
2. **Qualitative characteristics of a less complex entity to determine if use of the ISA for LCE is appropriate:** The qualitative characteristics are to be considered both individually and in combination. The qualitative characteristics are not exhaustive nor absolute (including numerical indicators) and include:
 - **Business activities, business model and industry** - The business activities, business model, or the industry in which the entity operates, do not give rise to significant pervasive business risks. There are no specific laws or regulations that govern the business activities that add complexity (for example, prudential requirements). The entity's transactions result from lines of business or revenue streams.
 - **Organisational structure and size** - The structure is relatively straightforward, with few reporting lines or levels and a small key management team (for example, five individuals or less).
 - **Ownership structure** - The entity's ownership structure is straightforward and there is clear transparency of ownership and control, such that all individual owners and beneficial owners are known.
3. **A Quantitative threshold to further limit the applicability of the standard.** National standard setting authorities may set quantitative thresholds to exclude audits of entities to be conducted using the ISA for LCE.

Professional judgement is needed to determine whether the ISA for LCE is appropriate for use. If there is uncertainty about whether the criteria in the *Authority* apply, the use of the ISA for LCE may not be appropriate. (i.e. if in doubt, you are out).

Applicability to Group Audits

The ISA for LCE can be used for audits of group financial statements, if eligible. The group is evaluated using the same qualitative characteristics discussed above. The considerations also apply to each of the individual entities and business units. i.e., if either the group or the group's individual entities of business units do not display the qualitative characteristics of less complex entities, the ISA for LCE may not be used. The group structure, access to information or people and the consolidation process are also considered to determine whether to use the ISA for LCE.

The ISA for LCE may not be used for group audits when component auditors are involved, except in limited circumstances. The ISA for LCE may only be used when the component auditor's involvement is limited to circumstances in which a physical presence is needed for a specific audit procedure for the group audit (e.g., attending a physical inventory count or physically inspecting assets or documents).

Proposed changes to the Authority in New Zealand

We are consulting on two aspects of the Authority: Specific Prohibitions, and Quantitative Thresholds.

(a) Specific Prohibitions

Use of the ISA for LCE is prohibited for certain types of entities, primarily those with public interest characteristics such as listed entities, deposit takers, and insurers. We propose an additional prohibition in New Zealand so that the ISA for LCE may not be used to audit FMC reporting entities considered to have higher level of public accountability (FMC HLPAs). This added prohibition aims to ensure that entities with a greater public interest or higher complexity remain subject to audits conducted under the full ISAs (NZ).

We considered whether other FMC reporting entities, i.e., those considered to have a lower level of public accountability (FMC LLPAs) should be prohibited but noted that there may be entities in this category that are less complex. FMC LLPA entities that have characteristics of complexity would be scoped out through the qualitative characteristics in the Authority.

FMC entities under the Financial Markets Conduct Act 2013 (FMC Act), or through a notice issued under the FMC Act, include:

FMC reporting entities with a "higher level of public accountability" (FMC HLPAs) include	FMC reporting entities with "lower levels of public accountability" (FMC LLPAs) include
<ul style="list-style-type: none"> (a) all issuers of equity securities or debt securities who make a regulated offer; (b) listed issuers; (c) licensed derivatives issuers; (d) recipients of money from a conduit issuer; (e) licensed managed investment schemes (MIS) (in respect of the investment fund financial statements); (f) registered banks; (g) credit unions; (h) licensed insurers; (i) building societies; and (j) any other entity designated as having a higher level of public accountability by the FMA. 	<ul style="list-style-type: none"> (a) licensed MIS managers (in respect of the manager's own financial statements); (b) licensed providers of discretionary investment management services (DIMS); (c) licensed peer-to-peer lending service providers; (d) licensed crowd funding service providers; (e) licensed supervisors; and (f) licensed market operators (domestic).

We considered whether to add qualitative characteristics or specific prohibitions to the *Authority*, based on the inclusion of service performance information, in that if an entity exhibited complexity in its service

performance information, it could not be audited under the ISA for LCE. We determined that such adjustment to the *Authority* in the context of SPI was not necessary. If an entity exhibited qualitative characteristics of complexity in its operations or finances, its SPI would likely exhibit complexity as well.

5. Do you agree that FMC reporting entities with higher levels of public accountability should be prohibited from being audited under the ISA (NZ) for LCE?
6. Do you agree that we do not specifically prohibit FMC reporting entities with lower levels of public accountability from being audited under the ISA (NZ) for LCE?
7. Are there any other entity types that you believe that we should specifically prohibit to ensure appropriate safeguards exist around the use of the ISA for LCE in New Zealand?

(b) Quantitative Thresholds

The IAASB recognises that national standard setting authorities may set a quantitative threshold over which to exclude the audits of entities to be conducted using the ISA for LCE, based on key metrics of the entity (e.g., revenue, total assets) or the average number of employees during the period under audit.

We have considered quantitative thresholds, such as excluding all Tier 1 financial reporting entities, or using the definition of [large](#) from the Financial Reporting Act 2013 as a quantitative threshold.

We determined that such a threshold is not needed in New Zealand because:

- a quantitative threshold is not necessarily an indicator of complexity.
- there could be undue audit effort in testing the accuracy of metrics used in the calculation of quantitative thresholds before determining whether the use of ISA (NZ) for LCE is appropriate.
- the specific prohibitions and qualitative characteristics will already scope out entities which have characteristics of complexity.

8. Do you agree with the XRB's position not to have a quantitative threshold within the Authority section of the ISA (NZ) for LCE? If not, what thresholds would you suggest and why?

3.4 Audit of service performance information with the ISA (NZ) for LCE

In New Zealand, many Public Benefit Entities (PBEs) are required to report Service Performance Information (SPI) based on the applicable financial reporting standard. Some of these PBEs are required to have their general-purpose financial report, including the SPI, audited. As many of these PBEs may be less complex entities, the XRB proposes adding a part to the ISA (NZ) for LCE to include requirements for auditing SPI of a less complex entity. This is included as Part 11 *Audit of Service Performance Information* in the Exposure Draft.

Part 11 Audit of Service Performance Information

Options considered to address the requirements for SPI for audits of less complex entities included:

1. Add a new Part to the ISA for LCE in New Zealand tailored to the needs of an audit of a LCE. This part would only apply if SPI is within the scope of the audit. This approach ensures the standard remains standalone, and an auditor would not need to use the ISA for LCE in conjunction with NZ AS 1 (Revised)¹.
2. Amend NZ AS 1 (Revised) to allow its use in conjunction with the ISA (NZ) for LCE. This option did not

¹ NZ AS 1 (Revised) *The Audit of Service Performance Information*

- support the goal of the ISA for LCE being standalone and would require change to NZ AS 1 (Revised).
3. Exclude SPI audits from this standard's scope. This option was not considered viable, as it would restrict the applicability of the ISA (NZ) for LCE in New Zealand.

The XRB preferred option one to maintain the standalone nature of the ISA for LCE for New Zealand.

We developed the requirements of Part 11, with reference to the approach in NZ AS 1 (Revised), but tailored and proportionate to an audit of a less complex entity. The requirements still enable the auditor to provide reasonable assurance. We used the drafting principles set by the IAASB to be:

- Clear - meaning drafted in an easy to understand and unambiguous way.
- Understandable - avoiding unnecessary words and elements and by using plain language.
- Concise - avoiding unnecessary repetition.

Part 11 has been written to follow the flow of an audit of SPI. The proposals emphasise that it is important for an auditor to gain an understanding of the entity and its SPI prior to setting materiality. Understanding what the entity does, its vision and mission and who the users of the report are, will help the auditor to:

- determine significant elements or aspects of service performance (i.e. things that are important to users).
- determine the materiality considerations relevant to the SPI.

Part 11 is used in conjunction with Parts 1-10 of the ISA (NZ) for LCE. Paragraph NZP.16A. notes that reference to “financial statements” in the ISA (NZ) for LCE refers to “service performance information” and where relevant “entity information”.

Essential Explanatory Material in Part 11

The ISA for LCE includes Essential Explanatory Material (EEM) in blue boxes, to provide further guidance to the auditor. We have included EEM in Part 11. We followed the IAASB’s key principles in drafting the EEM:

- EEM further explains concepts or procedures in the requirements or why procedures are undertaken, but generally does not explain how the procedures should be implemented.
- EEM does not impose a requirement or expand any requirement.
- EEM is presented to the extent that it provides essential context for understanding a concept or a requirement. There are no examples on the application of the requirement presented in EEM.

The exposure draft does not include all application material from NZ AS 1 (Revised). In some areas, such as materiality, more EEM has been incorporated to provide additional clarification. The EEM is largely derived from the application material in NZ AS 1 (Revised), with some sections, such as the use of service organisations, based on EEM within the ISA for LCE.

Possible areas of challenges in the audit of service performance information

While some PBEs have reported audited SPI for a while, for others it is relatively new. Recently the XRB has heard about challenges of reporting audited SPI, specific to the not-for-profit sector, by some preparers and auditors who attended our workshops. The XRB is separately exploring opportunities to enhance both reporting and audit practices but this may take time. Feedback from this ongoing work will continue to inform the ISA (NZ) for LCE. This consultation explores some of the specific challenges related to audit requirements that have been identified to date.

We reviewed other assurance standards, guidance, the requirements of NZ AS 1 (Revised) and the ISA for LCE, to consider if any further EEM or requirements could be added to Part 11 to address these challenges. We explored:

1. Audit evidence and attribution of SPI.

Relying on internal sources of information may pose challenges in obtaining evidence for qualitative SPI. The auditor may need to consider what other evidence can be obtained to support the information reported. We added EEM below 11.9.1. to guide the auditor around using internally generated information.

One of the assertions for SPI is: “Attributable to the entity—the service performance reported by the entity includes only service performance that the entity has evidence to support its involvement with either directly or in conjunction with other entities with common goals.” We added EEM at paragraph 11.9.1 to assist in situations where the auditor is uncertain if the entity can attribute performance, or the entity was involved in a service along with other entities, but the evidence is based on information outside the entity’s direct control or traditional reporting boundary.

2. Sampling

We considered whether any further requirements or EEM could be added regarding sampling. We found that Part 11, when used with the ISA for LCE, contained the key principles of sampling which would be used by the auditor to develop their methodology. On balance we have determined that as the requirements are consistent with other assurance standards we don’t think we need to add anything further to Part 11.

3. Materiality

The proposed requirements have clarified that the auditor considers materiality for qualitative SPI and determines materiality for quantitative SPI. EEM at paragraph 11.6.1 provides additional guidance for the auditor when considering or determining materiality.

4. Risk response

Requirements have been added regarding the auditor’s responsibility for designing and implementing overall responses to assessed risks of material misstatement at the SPI level in paragraphs 11.8.1 to 11.8.3. While these requirements are consistent with the principles in the ISAs, these requirements have been tailored for inclusion in Part 11. These additions build on the requirement at paragraph 11.7.2. where the auditor is required to identify and assess the risks of material misstatement at the SPI level.

9. Do you support the addition of Part 11 in the ISA (NZ) for LCE to enable the audit of SPI?

10. Are the requirements in Part 11 appropriately tailored for LCEs? Are there requirements in Parts 1-10 that would be difficult to apply and should be refined? If so, how?

11. Do you agree that the EEM included in Part 11 is appropriate? If not, what do you recommend?

12. What requirements in proposed ISA (NZ) for LCE could cause challenges for SPI? Do you have any suggestions on how to mitigate these challenges?

3.5 New Zealand specific amendments to the ISA for LCE

The XRB proposes minor amendments to harmonise the ISA for LCE with local principles and practices, as reflected in the ISAs (NZ). The amendments do not result in a standard that conflicts with, or results in lesser requirements. In summary, the proposed amendments relate to:

1. Responsibilities for the financial statements being those of governance rather than management, including in requirements relating to the engagement letter, auditor’s report, and written representations. (Ref: Para. NZ4.2.1, NZ8.6.7 and others)

2. Reference to the specific NZ financial reporting frameworks and Professional and Ethical Standards, and the NZ standard setters. (Ref: EEM under P.10., NZ4.3.4., and others)
3. Timing of the going concern assessment, being 12 months from the date of the auditor's current report to be consistent with the relevant ISAs (NZ). (Ref: Para. NZ9.5.20. and NZ7.4.2.)
4. Requiring, when applicable, the auditor to discuss facts which become known after the financial statements have been issued within a reasonable period of time with management and, where appropriate, those charged with governance. (Ref: Para. NZ8.4.7.)
5. Guidance for the auditor to communicate with management if the auditor will intend to rely on a written public statement. (Ref: EEM under 8.6.3.)
6. Adding guidance that comparative financial statements are not included in financial statements prepared under NZ generally accepted accounting practice. (Ref: EEM under 9.7.)
7. Delete reference to checks/cheques in the definition of Accounting Records – as these are no longer used in New Zealand, and they are unlikely to be applicable to less complex entities. (Ref: Appendix 1)

Each amended requirement paragraph or amended EEM in proposed ISA (NZ) for LCE is prefixed by "NZ". Amended requirement paragraphs have "[Amended by the NZAuASB]" to indicate that the paragraph differs from the international equivalent.

The XRB are also proposing *Conforming amendments arising from the ISA (NZ) for LCE*. These are based on the IAASB conforming amendments, but amend relevant New Zealand assurance standards. Broadly, these amendments add reference to the ISA (NZ) for LCE across the suite of assurance standards in New Zealand.

13. Do you have any comments on the proposed New Zealand specific amendments or the *Conforming amendments arising from the ISA (NZ) for LCE*?

3.6 Application date

We propose an application date for periods beginning on or after 15 December 2025. We consider this will allow sufficient time for preparation to implement the standard. If adopted, the ISA for LCE will be optional to use by auditors, but may only be used in audits of less complex entities, as described in the Authority of ISA (NZ) for LCE.

14. Do you agree with the proposed application date of periods beginning on or after 15 December 2025? If not, why not?

3.7 Other matters

Please share any additional thoughts or comments you may have regarding the proposed ISA (NZ) for LCE. We welcome feedback on any other aspects addressed in the exposure draft or if you consider there are matters we have missed.

15. Do you have any other comments on the proposed standard?



4.

Consultation Questions

Respondents are asked to consider the following questions and to respond to the XRB by 27 February 2025.

Questions for respondents

1. Do you agree with the potential benefits and costs/risks as outlined? Are there other benefits or costs and risks to consider? How might the issues identified be mitigated?
2. Do you consider that the benefits of adopting the ISA for LCE in New Zealand outweigh the costs and risks of doing so? Why?
3. Will you or your firm use the ISA (NZ) for LCE? When? Please provide your rationale.
4. Does the timing of the maintenance of the ISA for LCE affect your view on its adoption? Why?
5. Do you agree that FMC reporting entities with higher levels of public accountability should be prohibited from being audited under the ISA (NZ) for LCE?
6. Do you agree that we do not specifically prohibit FMC reporting entities with lower levels of public accountability from being audited under the ISA (NZ) for LCE?
7. Are there any other entity types that you believe that we should specifically prohibit to ensure appropriate safeguards exist around the use of the ISA for LCE in New Zealand?
8. Do you agree with the XRB's position not to have a quantitative threshold within the Authority section of the ISA (NZ) for LCE? If not, what thresholds would you suggest and why?
9. Do you support the addition of Part 11 in the ISA (NZ) for LCE to enable the audit of SPI?
10. Are the requirements in Part 11 appropriately tailored for LCEs? Are there requirements in Parts 1-10 that would be difficult to apply and should be refined? If so, how?
11. Do you agree that the EEM included in Part 11 is appropriate? If not, what do you recommend?
12. What requirements in proposed ISA (NZ) for LCE could cause challenges for SPI? Do you have any suggestions on how to mitigate these challenges?
13. Do you have any comments on the proposed New Zealand specific amendments or the *Conforming amendments arising from the ISA (NZ) for LCE*?
14. Do you agree with the proposed application date of periods beginning on or after 15 December 2025? If not, why not?
15. Do you have any other comments on the proposed standard?



5.

Glossary

EEM	Essential Explanatory Material
FMC HLP	FMC reporting entities considered to have Higher Level of Public Accountability
FMC LLP	FMC reporting entities considered to have Lower Level of Public Accountability
IAASB	International Auditing and Assurance Standards Board
ISA for LCE	International Standard on Auditing for Audits of Financial Statements of Less Complex Entities – the international version of ISA (NZ) for LCE
ISA (NZ) for LCE	International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities
ISA	International Standards on Auditing
ISA (NZ)	International Standards on Auditing (New Zealand)
NZAuASB	New Zealand Auditing and Assurance Standards Board
Part 11	The NZ specific part added to the ISA for LCE to enable the audit of Service Performance Information
PBE	Public Benefit Entities
SPI	Service Performance Information
XRB	External Reporting Board

XRB STANDARDS
NAVIGATOR



ISAs (NZ) and other standards are available on the XRB Standards Navigator
<https://standards.xrb.govt.nz/standards-navigator/>



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