

Consultation Document At a glance

ISA (NZ) for Less Complex Entities

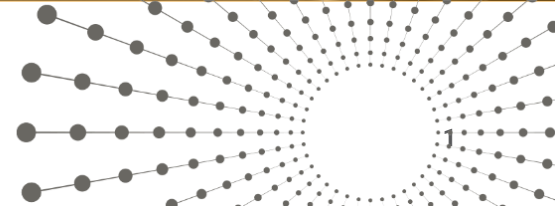
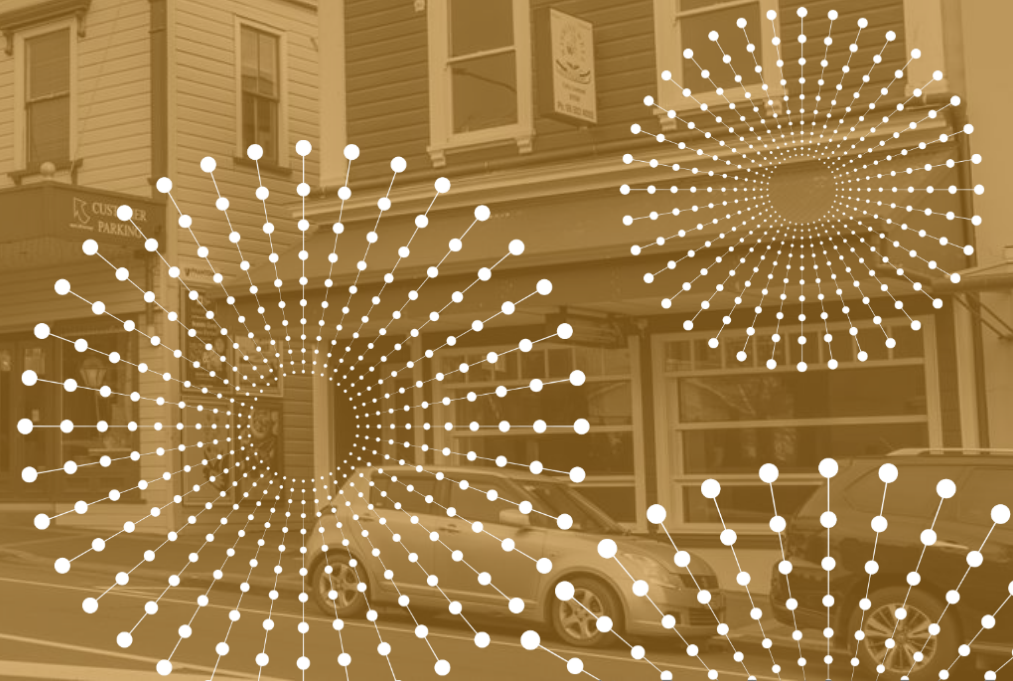
New Zealand adoption of a standard
for audits of Less Complex Entities

ISA (NZ) for LCE



November 2024

Consultation closes 27 February 2025





In New Zealand, the type of entities seeking an audit varies considerably from large, listed companies to small charities. There are many less complex entities in New Zealand that have audits of their financial statements, including non-profit organisations such as charities and sports clubs, schools and early childhood centres.

While the current auditing standards (ISA (NZ)) are scalable, we have heard comments that the auditing standards are getting increasingly long and detailed, and that they are largely written in the context of highly regulated, large, listed entities.

The External Reporting Board has issued a consultation document to seek feedback on adoption of the *International Standard on Auditing (NZ) for Audits of Financial Statements of Less Complex Entities (ISA (NZ) for LCE)*.

Consultation closes 27 February 2025



The standard contains all the requirements necessary to obtain reasonable assurance about whether the financial statements, and, where applicable, service performance information, is free from material misstatements, whether due to fraud or error.



The Standard:

- Is proportionate and tailored to the specific needs of an audit of less complex entities
- Is based on the underlying concepts from the ISAs and ISAs (NZ)
- If adopted, could be effective for periods beginning on or after 15 December 2025

Weighing up the potential benefits and issues

While the ISA for LCE presents expected benefits, it's important to consider any drawbacks that might arise from its adoption in New Zealand.

Potential benefits	Potential issues
<ul style="list-style-type: none">• Suited for NZ's environment	<ul style="list-style-type: none">• Perception of Reduced Audit Quality
<ul style="list-style-type: none">• Proportionate and Tailored	<ul style="list-style-type: none">• Risks of maintaining two suites of auditing standards
<ul style="list-style-type: none">• Aligned with ISAs	<ul style="list-style-type: none">• Education and training costs
<ul style="list-style-type: none">• Clear, Understandable and Concise	<ul style="list-style-type: none">• Audit fee pressures
<ul style="list-style-type: none">• Will help maintain confidence in financial reporting	<ul style="list-style-type: none">• Specialisation risk
<ul style="list-style-type: none">• Promotes the consistent application of auditing standards to audits of LCEs	<ul style="list-style-type: none">• Complexity reassessment risk
<ul style="list-style-type: none">• Same level of assurance as ISAs – Reasonable assurance	<ul style="list-style-type: none">• Not all jurisdictions will adopt the ISA for LCE

We are interested in your views on:

- Should the XRB adopt the ISA for LCE in New Zealand
- Do the benefits of adopting the standard in NZ outweigh the issues
- Are there any other potential benefits or issues which should be considered

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

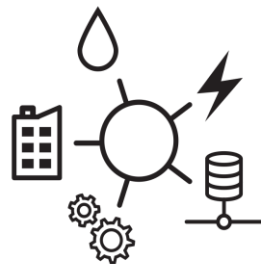


The ISA (NZ) for LCE *cannot* be used for audits of:

- Listed entities
- Entities with certain public interest characteristics: deposit takers, insurers, FMC reporting entities with *higher levels* of public accountability (FMC HLPAs)

We are interested in your views on prohibiting FMC HLPAs, but not FMC reporting entities with lower levels of public accountability (FMC LLPAs)

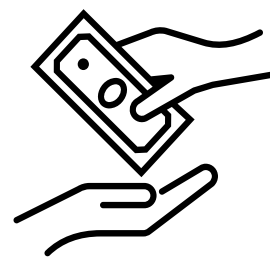
2. QUALITATIVE CHARACTERISTICS



The standard describes an LCE's characteristics related to the entity's:

- Business activities and model
- Organisational structure and size
- Ownership structure
- Finance function and IT
- Financial reporting framework and accounting estimates
- Consolidation process

3. QUANTITATIVE THRESHOLDS



At this stage we have determined that a quantitative threshold is not required.

A quantitative threshold is not necessarily an indicator of complexity. We are interested in your views as to whether a quantitative threshold is needed.

We are interested in your views on:

- **Adding a specific prohibition of FMC HLPAs entities**
- **Not prohibiting FMC LLPAs entities**
- **No Quantitative thresholds**
- **Any other entity types to specifically prohibit**

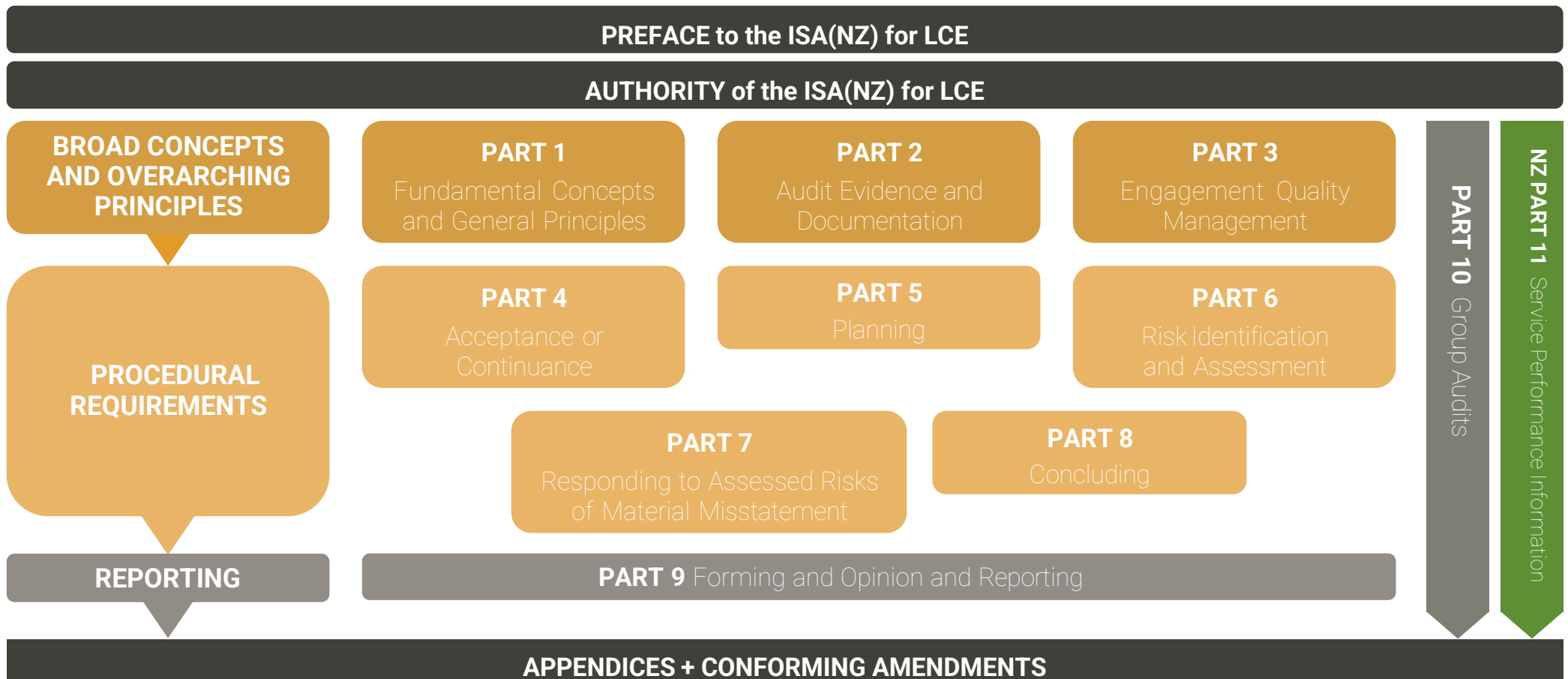
ISA (NZ) for LCE

The standard contains all requirements necessary to obtain reasonable assurance about whether the financial statements are free from material misstatements, whether due to fraud or error.

Recognising that public benefit entities, who are also less complex, may have their service performance information audited alongside the financial statements, 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.



The following diagram illustrates the content of the proposed standard:





Key questions



Should the XRB adopt the ISA for LCE in New Zealand?



Do you consider that the benefits of adopting the ISA for LCE in New Zealand outweigh the costs and risks of doing so? Are there any other potential benefits or issues which should be considered? How might the issues identified be mitigated?

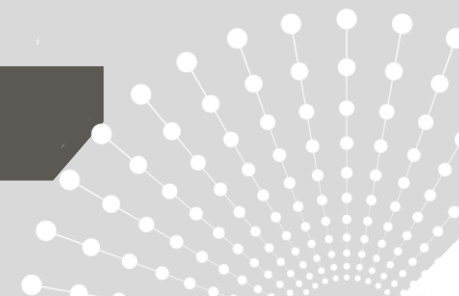


Do you agree that FMC HLPAs reporting entities should be prohibited from being audited under the ISA (NZ) for LCE? Are there any other entity types that you believe that we should specifically prohibit to ensure appropriate guardrails exist around the use of the ISA for LCE in New Zealand?



Do you support the addition of Part 11 *Audit of Service Performance Information* to the ISA (NZ) for LCE? Do you agree with the proposed application date of periods beginning on or after 15 December 2025?

More questions on other aspects are included in the consultation document.



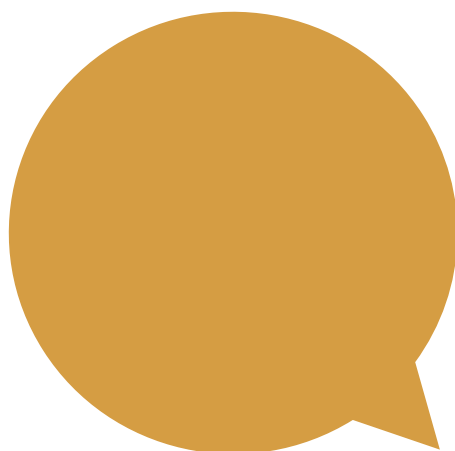


Over to you...

We are keen to hear your feedback

The full consultation document and exposure draft can be found on the [consultation page of our website](#)

Keep an eye on our website for details on events and information relating to this consultation



To provide feedback you can:

- Submit via our website: www.xrb.govt.nz
- Comment on LinkedIn
- Attend a virtual event
- Email or Call us: assurance@xrb.govt.nz

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