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

Exposure draft

Consultation closes
25 September 2026

August 2026

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

CONTENTS

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 standards

0.3 This standard amends the following principal standards:

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

How amendments are made

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

(a) text that is shown as ~~struck out~~ is deleted from the stated provision of the principal standard

(b) text that is shown as <u>underlined</u> 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 standards.

Application

0.5 This standard commences to apply in relation to accounting periods that begin on or after 1 March 2026.

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

EEM to paragraph A.3. amended

[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 at paragraph 6.3.11. amended

Understanding the Services Provided by a Service Organisation

6.3.11. 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's understanding in accordance with paragraph 6.3.8. shall include:

(a) The nature of the services provided by the service organisation and the significance of those services to the entity including the effect thereof on the user entity's system of internal control;

(b) The nature and materiality of the transactions processed or accounts or financial reporting processes affected by the service organisation;

(c) The degree of interaction between the activities of the service organisation and those of the user entity; and

(d) The relevant contractual terms for the activities undertaken by the service organisation.

The auditor's understanding shall be sufficient to provide an appropriate basis for the identification and assessment of the risks of material misstatement.

[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 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 paragraphs, and EEM, added after paragraph 6.3.11.

6.3.12. 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 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.

NZ 6.3.14 If the auditor intends to use a type 1 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 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 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 at 7.4.28. amended

Using the Services of a Service Organisation

7.4.28. If the entity is using the services of a service organisation, the auditor shall:

(a) Determine whether sufficient appropriate audit evidence concerning the relevant financial statement assertions is available at the entity; and, if not,

(b) Perform further audit procedures to obtain sufficient appropriate audit evidence.

> *[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 paragraphs added after 7.4.28 and EEM added to 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:

- *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 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 entity's process to monitor the system of internal control.

The Independent Auditor's Report following NZ9.4.1. amended

Refer to the section headed: Auditor's Responsibilities for the Audit of the Financial Statements

...

As part of an audit in accordance with the ISA (NZ) for LCE, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

…

- 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 Independent Auditor's Report following 11.14.1. amended

Refer to the section headed: Auditor's Responsibilities for the Audit of the [Financial Report/Performance Report]

> …
>
> As part of an audit in accordance with the ISA (NZ) for LCE, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:
>
> …
>
> - 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

…

We will conduct our audit in accordance with the ISA (NZ) for LCE. The ISA (NZ) for LCE requires that we comply with ethical requirements. As part of an audit in accordance with the ISA (NZ) for LCE, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

…

- 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

…

We will conduct our audit in accordance with the ISA (NZ) for LCE. The ISA (NZ) for LCE requires that we comply with ethical requirements. As part of an audit in accordance with the ISA (NZ) for LCE, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

…

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

…