Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

ISA (NZ) for LCE

Proposed amendments

Consultation document

Consultation closes
25 September 2026

August 2026

Contents

Part 1: Why this consultation matters for LCE audits

This consultation document seeks feedback on two matters affecting the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities (**ISA (NZ) for LCE**). First, we propose targeted New Zealand-specific amendments to enable auditors to use controls reports from service organisations as audit evidence in certain circumstances. Second, we seek views on international proposals developed by the IAASB to maintain the ISA for LCE following recent changes to auditing standards. We are consulting on these matters together because both may affect auditors using the ISA (NZ) for LCE, but they have different purposes and different proposed application dates.

We seek comment on New Zealand specific amendments to the ISA (NZ) for LCE

We continue to closely monitor adoption of the standard in New Zealand to understand how it is being used and what further support is needed. We have recently heard that auditors consider that restrictions on how controls reports may be used under the current standard are perceived as a barrier to adoption of the ISA (NZ) for LCE. While these restrictions align with the international standard, we have heard these concerns from New Zealand stakeholders.

Auditors may obtain 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. We are therefore proposing targeted New Zealand amendments to the standard to allow auditors to rely on controls reports as audit evidence and ensure that the ISA (NZ) for LCE is fit for purpose in New Zealand.

We invite your views on the proposed narrow, targeted amendments to the ISA (NZ) for LCE. The proposed amendments add conditional requirements that would apply in relevant circumstances and enable auditors to rely on controls reports as audit evidence when using the ISA (NZ) for LCE.

We seek comment on international proposals to maintain the ISA (NZ) for LCE

We also invite your views on the IAASB's proposals to maintain the ISA for LCE. The proposals respond to revisions to standards and requirements on going concern, fraud, publicly traded entities and using work of an expert.

Your comments on the international proposals will inform our submission to the IAASB and help us determine if there are any further changes needed for New Zealand.

Roadmap for navigating the two consultations

This consultation covers two matters:

- Part 3 asks for feedback on proposed New Zealand amendments about relying on controls reports as audit evidence when using the ISA (NZ) for LCE.
- Part 4 asks for feedback on the IAASB's international proposals to maintain the ISA for LCE, including changes relating to fraud, going concern, publicly traded entities, and using the work of an expert.

We are consulting on both matters together because they affect auditors considering whether to use the ISA (NZ) for LCE. However, they have different sources, different purposes, and different proposed application dates.

This consultation document should be read in conjunction with:

- the proposed New Zealand amendments to the ISA (NZ) for LCE; and
- the IAASB's explanatory memorandum and exposure draft on maintaining the ISA for LCE.

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.

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 25 September 2026

Events

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

Consultation questions

Part 3 New Zealand specific amendments	
1.	**Do you agree with our understanding and our view on the necessary amendments?**
2.	**Do you agree the proposals are appropriately scoped and proportionate? If not, why not and what changes do you suggest?**
3.	**Do you agree that the requirements and Essential Explanatory Material are clear and workable? If not, what changes would help improve clarity or application?**
4.	**Do you agree that the expected benefits of the proposed amendments, listed on page 7, outweigh the implementation costs and other practical challenges? If not, why not?**
5.	**Are there any other benefits or costs that we should consider?**
6.	**Do you agree with an application date of periods beginning on or after 1 March 2026?**
Part 4 IAASB's proposed amendments	
7.	**We seek your views on the questions raised in the IAASB's explanatory memorandum.**
8.	**Do you agree that the expected benefits of the proposed amendments, in the IAASB exposure draft outweigh the implementation costs and other practical challenges, listed on page 9? If not, why not?**
9.	**Are there any other benefits or costs that we should consider?**
10.	**Do you agree we should replace references from listed entity to publicly traded entities?**
11.	**Are there any compelling reason changes the XRB should make in New Zealand?**

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

Current standard is restrictive as to when controls reports can be used as audit evidence

LCEs may often use external services from service organisations. Service organisations may initiate, record and process certain transactions. They may also maintain accounting records.

The ISA (NZ) for LCE recognises that a LCE may use a service organisation. However, when an auditor wants to rely on a type 1 or type 2 controls report[2] as audit evidence, the current standard does not include all the relevant ISA (NZ) 402[3] requirements needed to support that approach.

The standard was deliberately not designed for audits that rely on 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.

The general introductory Essential Explanatory Material (**EEM**) explains why the ISA (NZ) for LCE does not include all requirements from ISA (NZ) 402. Those omitted requirements relate to using controls reports as audit evidence about the design, implementation, and operating effectiveness of controls. The EEM explains that these requirements would ordinarily not apply to an audit of an LCE (see the last bullet point in the general introductory EEM above paragraph A.3).

We consider New Zealand-specific changes are needed

Based on our recent engagement with stakeholders, auditors considering the ISA (NZ) for LCE explained that, in some circumstances, they rely on controls reports as audit evidence when auditing LCEs. Outsourcing of business functions is increasing, which could affect how audits of LCEs are performed in future.

This has created the perception that the qualitative characteristics for using the ISA (NZ) for LCE are too restrictive for New Zealand, raising concerns that these settings may limit the adoption of the standard by audit firms.

Our high-level understanding of how these controls reports are currently used in practice is as follows:

- Available controls reports provide the auditor with an understanding of the nature of the services provided by the service organisation. Using controls reports to obtain this understanding is currently permitted and does not necessitate any amendments to the ISA (NZ) for LCE.
- When gathering audit evidence over specific assertions, the auditor does, in some circumstances, rely on the controls reports about the design and implementation, and operating effectiveness of controls.

  For example, for an investment held at year-end, an auditor may confirm the number of units or shares held at year-end, and the value of each unit or share, directly with the fund manager. However, the auditor may not have direct visibility over the fund manager's processes for calculating those balances and values. Available controls reports may provide evidence about the design, implementation, and operating effectiveness of relevant controls. That evidence may contribute to the auditor's cumulative body of audit evidence and support the accuracy and completeness (i.e. the reliability) of the confirmation obtained from the fund manager.

  We have not described all the procedures that the auditor would undertake in these circumstances.

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

We propose to add requirements and application material from ISA (NZ) 402, tailored appropriately for audits of less complex entities

The proposed amendments are narrow in scope and targeted to the specific issue identified in New Zealand, namely enabling auditors to use type 1 or type 2 controls reports as audit evidence where appropriate.

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. 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.

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 detailed procedures for using another auditor to perform work at the service organisation[4], public sector-specific access considerations, and requirements or explanatory material about referring to the work of a service auditor in the auditor's report. 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.

The proposed New Zealand amendments would:

- Add definitions for 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.

The New Zealand specific conditional requirements would apply only when the auditor chooses to use controls reports as audit evidence.

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

The proposed requirements and EEM are intended to enable auditors to use controls reports as audit evidence where appropriate, without changing the broader principles-based and proportionate nature of the ISA (NZ) for LCE. We are interested in feedback on whether the proposed requirements achieve that balance.

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

Do you agree that the requirements and Essential Explanatory Material are clear and workable? If not, what changes would help improve clarity or application?

[4] Use of component auditors is already prohibited in the ISA for LCE unless in specific circumstances.

We consider the benefits of New Zealand specific changes outweigh the costs

In developing these amendments, we considered whether the expected benefits of the New Zealand-specific amendments outweigh the potential costs and challenges.

Potential 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 key 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 where available
- Maintains audit quality

Potential 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

On balance, we consider that:

- the benefits outweigh the costs
- the amendments provide a targeted and proportionate response to a clearly identified issue
- the amendments support the public interest by enabling high-quality, efficient audits of LCEs in New Zealand and removing a perceived barrier to adoption.

Do you agree 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?

We propose an application date as soon as possible

We understand that the issue is a perceived barrier to adoption of the standard. We therefore propose to allow adoption as soon as possible. We propose an application date for accounting periods beginning on or after 1 March 2026, with early adoption permitted depending on when we finalise the amendments.

Although the international standard currently has a stability period of three years, we consider that an earlier application date would address the perceived adoption barrier sooner. It would also support firms that are currently preparing their audit methodologies and tools for ISA (NZ) for LCE engagements. This would allow the use of controls reports to be built into those methodologies now, rather than requiring later rework.

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

Part 4: We propose to adopt international proposals to maintain the ISA for LCE

Part 3 focused on a New Zealand issue that we propose to address locally. Part 4 is different. It asks for your views on international proposals developed by the IAASB to keep the ISA for LCE aligned with recent changes to the auditing standards. Your feedback will help shape the XRB's submission to the IAASB and our later decisions on New Zealand adoption.

We are preparing a submission to the IAASB

The IAASB is proposing targeted updates to the ISA for LCE following recent revisions to the full ISAs. These relate to fraud and going concern. There are also updates that address interoperability with the code of ethics. These relate to publicly traded entities and using the work of an external expert. The IAASB's aim is to keep the ISA for LCE current while preserving its proportionate nature.

This section should be read in conjunction with the IAASB's explanatory memorandum and exposure draft on maintaining the ISA for LCE. In developing its standards, the IAASB considers the qualitative standard-setting characteristics set out in the Public Interest Framework.[5] 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. The IAASB's Public Interest Framework identifies the qualitative characteristics of standards that are responsive to the public interest. The IAASB explains in the Explanatory memorandum how those characteristics have been considered and reflected in the proposals.

The IAASB is committed to maintaining the ISA for LCE for changes in the business and audit environment. The IAASB's Approach for Maintaining the ISA for LCE describes the agreed approach to do so.

The revisions to the fraud standard clarify the auditor's roles and responsibilities for fraud in an audit of financial statements. They also establish more robust procedures for responding to risks of material misstatement due to fraud, reinforce the importance of professional scepticism and improve communications between the auditor, those charged with governance and users of audit reports.

Revisions to the going concern standard promote a consistent response to identified risks of material misstatement related to going concern. They strengthen the auditor's evaluation of management's going concern assessment and enhance transparency about the auditor's responsibilities, communications and reporting requirements. A key proposed change would require management's assessment period to be at least 12 months from the date the financial statements are approved. This aligns with current New Zealand practice of 12 months from the date of the auditor's report.

Further information on revisions to the fraud and going concern auditing standards can be found on the XRB website.

We plan to adopt the proposals once finalised

The IAASB's exposure draft gives you an opportunity to comment on the proposed revisions to the ISA for LCE.

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

[5] 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.

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. The ISA (NZ) for LCE is not stand-alone regulation. It is part of the broader system of auditing and assurance, related service and professional and ethical standards. Its purpose is to increase trust and confidence in high quality assurance by amending the ISA (NZ) for LCE.

This strategy is balanced with the XRB's responsibilities as a setter of secondary legislation to consider the potential benefits and potential costs of revising or issuing auditing standards.

In considering the proposed IAASB amendments to ISA for LCE we have identified the following potential benefits and potential costs:

Potential benefits

Global audit quality and comparability (users and auditors)

- Alignment with international standards enhances the credibility of financial reporting and supports regulatory confidence.

Enhanced confidence in assurance outcomes (users)

- Consistent, principle-based requirements reduce variability in audit approaches and strengthens trust in assurance conclusions. The proposals strengthen requirements in key public interest areas such as fraud and going concern. This supports user protection, market integrity and informed decision-making.

Proportionate and scalable (auditors)

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

Efficiency from leveraging global due process (Reporting Entities and Assurance Practitioners)

- IAASB standards are developed through extensive consultation, research and testing. Jurisdictions benefit from global expertise on LCE audit issues without needing to develop local standards.

Potential costs

Implementation and methodology updates for audit firms

- The revised IAASB standards often require changes to audit and assurance methodologies, tools, templates, and quality management systems. Assurance practitioners incur costs for training, updating software, and redesigning processes. Strengthened requirements in fraud and going concern may require increased work effort.

Proportionality challenges for smaller firms (Assurance Practitioners)

- Notwithstanding that the IAASB's standards are designed to be proportionate and scalable, they may still be complex for small and medium assurance firms. Additional guidance may be required to support consistent application of the standards.

We have considered the major expected qualitative benefits and costs, the parties affected, and the practical constraints on quantification of costs and benefits.

Do you agree that the expected benefits of the proposed amendments, in the IAASB exposure draft, outweigh the implementation costs and other practical challenges? If not, why not?

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

We propose to adopt the international proposals, with no New Zealand-specific modifications

The XRB modifies standards it intends to adopt only when the compelling reason test is triggered. This occurs when the international standard does not reflect, or is not consistent with New Zealand legal and regulatory arrangements or principles and practices that are appropriate having regard to the New Zealand public interest.

There are a range of prohibitions for use in the extant ISA for LCE. The IAASB is proposing to broaden one category, prohibiting use for audits of publicly traded entities (broader than the extant exclusion for listed entities (at specific prohibitions paragraph A.1.(b) and EEM above paragraph A.3.).

We have not identified a compelling reason to modify this expanded prohibition in New Zealand. If we adopt this change it would mean that the ISA (NZ) for LCE could not be used on the audits of any entities that meet the definition of a publicly traded entity.

In the New Zealand context, for example, this may mean auditors of entities listed on Catalist or the Unlisted Securities Exchange would be precluded from using the ISA (NZ) for LCE.

FMC reporting entities considered to have a higher level of public accountability are already excluded in the extant standard.

Changes will be made to reflect references, language and grammatical conventions used in New Zealand.

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

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

Part 5: Glossary

EEM
Essential Explanatory Material

FMC reporting entities
FMC entities under the Financial Markets Conduct Act 2013 (FMC Act) – more information here

IAASB
International Auditing and Assurance Standards Board

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

LCE
Less Complex Entity

PIE
Public Interest Entity

Service organisation
A third-party organisation (or segment of a third-party organisation) that provides services to user entities that are relevant to a user entity's process to prepare its financial statements.

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

- 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
- 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.

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

- 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
- 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, the suitability of the design of the controls to achieve the specified control objectives, and the operating effectiveness of the controls; and
  - A description of the service auditor's tests of the controls and the results thereof.

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View standards in the XRB Standards Navigator

Standards are available on the XRB Standards Navigator
https://standards.xrb.govt.nz/standards-navigator/