

Preliminary questions

What is your role? *

Audit engagement partner

Other Audit specialist (i.e., technical director, audit manager, audit senior, etc)

Preparer (i.e. accountant, management, director)

User of audit reports (i.e. regulator, government agency, investor, grant provider, or other stakeholder)

Educator

Please provide your name *

Assoc Prof Dr Radiah Othman

Please provide the name of the organisation that you are employed by, or affiliated with *

Massey University

Please provide your email address *

r.othman@massey.ac.nz

Weighing up the potential benefits and issues

Do you agree with the potential benefits and costs/risks as outlined in the consultation document?

Yes

No

Are there other benefits or costs and risks to consider? How might the issues identified be mitigated?

Benefits (macro level): The risks of not adopting the standard in the long run could be significant, particularly in the face of unprecedented global health, economic, and political challenges. Implementing the standard could better prepare businesses and the country to withstand future uncertainties.

Do you consider that the benefits of adopting the ISA for LCE in New Zealand outweigh the costs and risks of doing so? *

Yes

No

Why?

I am an educator specializing in fraud and forensics, so my views reflect my area of expertise. According to MBIE (2023), a significant portion of firms in New Zealand (97%) are small businesses, making them well-suited for the adoption of the ISA (NZ) for LCE. The pandemic and ongoing economic challenges have heightened the pressure on these businesses to perform in order to survive. This standard will provide a safeguard and help minimize accounting malpractices, regardless of the industry's challenging environment. The same applies to the public sector, where it can enhance accountability in the use of public funds, no matter how small the organization is.

Will you or your firm use the ISA (NZ) for LCE?

Yes

No

Not applicable

Does the timing of the maintenance of the ISA for LCE affect your view on its adoption?

Yes

No

Why?

I might have a biased view as an educator, but I believe the timeline could be extended to allow for adequate education and training for management who may potentially use the standard. This is particularly important given the potential expectation gap, where management might assume the standard will result in lower audit fees, despite the requirement for auditors to provide reasonable assurance.

Do you have any other comments regarding the potential benefits and issues, adoption, or maintenance of the ISA for LCE.

1. Changes in Size, Structure, and Complexity: The XRB might want to consider not only the expectation gap but also the challenges of transitioning small businesses from the ISA for LCE to the full standards when their size, structure, or complexity no longer permits the use of the simplified standard. This transition process could pose significant practical and operational challenges for both businesses and auditors.

2. Work Involved for Auditors of Public Sector Entities: Public sector entities can present unique challenges, such as difficulties in determining whether they fall under the category of Part A authority. Additionally, changes in the ruling government may lead to a reclassification of entities, resulting in situations where entities that were previously eligible for the standard no longer qualify after their recent formation under the previous government. These scenarios could create uncertainties for auditors and stakeholders alike.

In any case, providing more specific guidance for auditors would be highly beneficial. This would help address uncertainties, ensure consistent application of the standard, and support auditors in navigating complexities such as transitions, classification issues, and changes in eligibility criteria.

Applicability in New Zealand

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?

Yes

No

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? *

Yes

No

If you answered no to the above, please comment why

This could potentially increase confusion and widen the expectation gap regarding the applicability of the standard.

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?

I think the proposed standard is sufficiently clear on this aspect.

Do you agree with the XRB's position not to have a quantitative threshold within the Authority section of the ISA (NZ) for LCE? *

Yes

No

Do you have any other comments regarding the Authority?

The public sector comprises a mixed nature of entities that vary significantly in size, complexity, and levels of expected accountability. This diversity can pose challenges in determining the applicability of the standard, as smaller or less complex entities may seem eligible, but their heightened accountability requirements could necessitate more rigorous auditing standards. Clear criteria and tailored guidance are crucial to addressing these variations and ensuring that the standard is appropriately applied across the sector.

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

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

Yes

No

Are the requirements in Part 11 appropriately tailored for LCEs?

Yes

No

Are there requirements in Parts 1-10 that would be difficult to apply and should be refined? If so, how?

As an educator, I am not in the best position to answer this.

Do you agree that the EEM included in Part 11 is appropriate?

Yes

No

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

As mentioned earlier, the entities affected by changes in the ruling government may face reclassification or shifts in their roles and responsibilities, which can impact their eligibility under the standard. For example, entities formed under one government may no longer qualify or fall under a different regulatory framework under a new administration.

Final questions

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

No comment.

Do you agree with the proposed application date of periods beginning on or after 15 December 2025?

Yes

No

Do you have any other comments on the proposed standard?

I fully support the proposed standard as it will help the country prepare for future uncertainties and uphold the integrity of accounting and auditing practices for LCEs in both the private and public sectors.

Thank you

We thank you for your time spent completing this feedback form. Please press submit for your response to be recorded. If you have any further comments or attachments, send them to assurance@xrb.govt.nz