

Thursday, 27 February 2025

Marje Russ
Chair, New Zealand Auditing and Assurance Standards Board
PO Box 11250
Manners St Central
Wellington 6142

Via email: assurance@xrb.govt.nz

Dear Marje

Consultation Document – ISA (NZ) for Less Complex Entities

Chartered Accountants Australia and New Zealand (CA ANZ) and CPA Australia represent over 310,000 professional accountants who work in diverse roles across public practice, commerce, industry, government and academia throughout New Zealand, Australia and internationally. We welcome the opportunity to provide feedback on the above consultation and make this submission on behalf of our members and in the public interest.

We are supportive of the adoption of ISA for LCEs in New Zealand, including the addition of a section dealing with the audit of Service Performance Information (SPI) to the proposed ISA (NZ) for Less Complex Entities (ISA (NZ) for LCEs).

Our detailed responses to the consultation questions are included in the Attachment to this letter. Should you have any questions about the matters raised in this submission, please contact Zowie Pateman (CA ANZ) at zowie.pateman@charteredaccountantsanz.com or Tiffany Tan (CPA Australia) at tiffany.tan@cpaaustralia.com.au.

Yours sincerely

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Development
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Elinor Kasapidis CPA
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Attachment

Question 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?

We agree with the potential benefits and costs. We believe that most of the potential risks can be mitigated with education and guidance. Issues such as perception of the audit or the challenges of managing two audit methodologies for firms that choose to do so, can be managed with education and guidance. In terms of specialisation risk, most of the firms and practitioners who are most likely to adopt ISA (NZ) for LCE are already specialised. Auditors entering the profession will still be trained on the full suite of ISAs via their professional education with the accounting bodies, and ultimately, the choice to specialise in LCEs is an individual career decision.

Question 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?

Yes. Given the nature of New Zealand's audit market, which has many less complex entities, the efficiencies delivered to practitioners who adopt the standard, should result in more effective audits for LCEs. These efficiencies and an increase in audit quality, outweigh the costs and address long term concerns about the scalability of the ISAs raised by practitioners. As discussed in our response to Question 1, we believe many of the risks can be mitigated. There will be some initial costs in changing methodology or implementing a second methodology, but practitioners who choose to adopt the standard will do so because they believe they will benefit in the long term.

Question 3. Will you or your firm use the ISA (NZ) for LCE? When? Please provide your rationale.

Not applicable. However, overall, we have heard enthusiastic support from firms and the Office of the Auditor General for making the ISA (NZ) for LCE available for adoption in New Zealand.

Question 4. Does the timing of the maintenance of the ISA for LCE affect your view on its adoption? Why?

No. While we have heard some concerns on the impact on audit quality, the model of periodic updates of the standard is the same as IFRS for SMEs which seems to work well in jurisdictions that adopt that standard. Given that, in general, there are fewer changes to auditing standards than there are to the accounting standards, we do not think this should cause problems. On the contrary, a limited moratorium meaning audit standards are being updated periodically rather than continuously is likely to make dealing with change more practical for firms working primarily with LCEs, without losing the overall strengthening of standards over time.

As the entities audited under ISA (NZ) for LCEs will be less complex this should further minimise the risks of any delay in updating the standard. While some members raised concerns about operating two methodologies with different timing for adoption of changes, they felt that this could be managed. In relation to SPI, the board could consider whether it needs to establish a process by which updates could be made to the SPI requirements outside the international update cycle in the rare circumstances in which it may be warranted if there was a substantial change to NZ AS 1.

Question 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?

Yes, we believe this is appropriate as this is the term used in New Zealand auditing standards rather than 'listed entity' and these entities are public interest entities (PIEs).

Question 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?

Yes. Other than the clarification necessary for FMC reporting entities with higher levels of public accountability, we do not believe that the XRB should establish any further limitations on the application of the standard other than those set out in the standard as this would introduce an unnecessary level of complexity.

The scope of the standard as established by the IAASB is sufficient to prevent its use for audits of complex entities. Similar to all other entities, auditors should exercise professional judgment when deciding whether to use ISA (NZ) for LCE in their audits of FMC reporting entities with lower levels of public accountability. If certain entities within this category exhibit complexities due to their business nature, it is incumbent upon the auditor to apply their professional judgment regarding the appropriateness of using ISA (NZ) for LCE.

We have also received positive feedback indicating that, in situations of uncertainty, auditors should refrain from using ISA (NZ) for LCEs. This approach helps maintain the integrity and effectiveness of the auditing process while ensuring that appropriate standards are upheld.

Question 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?

No. We do not believe that the XRB should establish any further limitations on the application of the standard other than those set out in the standard as this would introduce an unnecessary level of complexity. The scope of the standard as established by the IAASB is sufficient to prevent its use for audits of complex entities.

Question 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?

Yes, we agree. The size of an entity as established by quantitative thresholds is not necessarily indicative of the complexity of an entity's operations. The scope of the standard as established by the IAASB is sufficient to prevent its use for audits of complex entities.

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

Yes. Due to the nature of the entities likely to be audited under the standard, some will have a requirement to report SPI, and have it assured, so we believe it is appropriate to add this part to the ISA (NZ) for LCE.

Question 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?

Yes, the feedback we have received from members has been largely positive. We have two comments on specific requirements.

- 11.3.1 Planning should recognise that planning the SPI audit concurrently may not always be practicable as the SPI may not be available at the initial stage of the audit.
- 11.3.2 Formal discussion with TCWG at the planning stage should not be mandatory as it may increase costs for the entities. Alternatives such as discussion with management supplemented by written communications to TCWG should be permitted.

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

Yes, the EEM seems appropriate, and our members have not raised any specific concerns.

Question 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?

We have not identified any specific concerns.

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

We have two suggestions in relation to amendments to provide clarity in the case of an audit moving to the full ISA (NZ) suite when the prior year audit used ISA (NZ) for LCE, whether due to a change in auditor or a change in the entity's complexity.

- An amendment to ISA (NZ) 510 paragraph A3 to make clear that use by the prior auditor of the ISA (NZ) for LCE standard does not in itself affect the value of the auditor's work in relation to the audit of opening balances
- An amendment to ISA (NZ) 710 paragraph 17 to make clear that no disclosure should be made if the previous year audit was under the ISA (NZ) for LCE standard (by the same auditor), and if the previous auditor used the ISA (NZ) for LCE standard.

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

Yes. This aligns with the application date for the international standard. As the standard will be optional, firms can take the time they need to implement an ISA (NZ) for LCE methodology if they choose to adopt the standard. We note that the term mandatory date is used in the commencement and application section paragraph 3. This term may confuse practitioners and make them think use of the standard is not optional. If mandatory date is the term required to be used for legal reasons, it would be useful to ensure that the optional nature of the standard is clear.

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

We have a concern that the use of the word "concurrently" in the standard could be misinterpreted in relation to SPI. For example, in the introduction to Section 11: "Part 11 sets out the considerations that apply when auditing service performance information, concurrently with the financial statements".

As noted above, the audit work on the SPI may not be concurrent with the work on the FS due to availability of information. However, the audit report will contain opinions on both the FS and the SPI. It should be clear that the standard still applies in this case.

The board should consider whether it would be appropriate to track the update and usage of the standard after the first few years of implementation. This will allow both understanding of how the standard is used in New Zealand but also inform any responses the board may wish to make to the IAASB as they update, or do post-implementation reviews, of the standard.