



Te Tari Taiwhenua Internal Affairs

Charities Services

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ISA (NZ) for Less Complex Entities

Charities Services is pleased to provide a submission to the External Reporting Board (the XRB) on the consultation and exposure draft of the proposed audit standard *ISA (NZ) for LCE*. We have taken the opportunity to provide general comments from our perspective as a regulator of the charitable sector under the Charities Act 2005.

Our primary purposes as set out in the Act are to promote public trust and confidence in the charitable sector; and encourage and promote the effective use of charitable resources. Charities Services' functions under the Charities Act 2005 include supporting registered charities in meeting their obligations to submit audited financial statements when required.

Regulatory impacts

We have considered the regulatory impact of the proposed ISA (NZ) for LCE on the following:

Impact on public trust and confidence

We consider the proposed ISA (NZ) for LCE to have minimal impact on public trust and confidence. There is a risk that some readers of Performance Reports where audits were undertaken under the ISA (NZ) for LCE standard may perceive the audit to be of a lesser quality, which may lead them to consider charities in the same reporting tier not comparable. However, we generally consider that an accepted audit standard will provide public assurance of effective use of charitable resources.

Impact on Charities Services ability to regulate

Charities Services conducts compliance checks on charities in all tiers to ensure charities are complying with the Charities Act and the relevant accounting standard(s) when filing their Annual Returns and Performance Reports. We do not consider the proposed ISA (NZ) for LCE audit standard to limit our ability to assess compliance.

Impact on easing the burden for less complex entities

Charities Services aims to ensure complying with the Charities Act is not overly burdensome, especially for smaller charities.

The ISA (NZ) for LCE is likely to be simpler to use for auditors due to the way it is structured and the length of the standard. However, audits may not be shorter or less expensive for charities audited under this standard and therefore may not necessarily provide a lesser burden on charities. This may give rise to conflict between

charities and their auditors. Appropriate information and education by XRB in advance of the standard being introduced may mitigate this risk.

We also understand a concern for auditors both within New Zealand and abroad is the potential to discover during an audit that the ISA for LCE standard cannot be applied, and they must shift to the full standards. In such a situation, Charities Services is likely to receive enquiries and potential requests for extensions from affected charities. We favour the establishment of clear, early guidance to auditors regarding the applicability of this standard.

General comments

Finally, Charities Services is aware of concerns regarding the alignment of updates to the current audit standards and the ISA (NZ) for LCE. We understand there could be misalignment between the new standard and the general audit standards. Without understanding the depth of the updates to the audit standards, it is difficult to estimate the risk in this misalignment. We encourage efforts by the XRB to minimise any associated risk.

Thank you for the opportunity to comment.

Nga mihi,

A handwritten signature in black ink, appearing to read 'Charlotte Stanley', with a stylized, cursive script.

Charlotte Stanley

Director – Charities Services | Ngā Ratonga Kaupapa Atawhai
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