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*Submitted electronically*

Dear Board Members,

## **Deloitte Submission on adoption of the International Standard on Auditing ('ISA') for Less Complex Entities ('LCE') in New Zealand.**

Thank you for the opportunity to provide feedback on the adoption and application of the International Standard on Auditing for Less Complex Entities ('the standard' or 'LCE standard'). We appreciate the XRB's efforts to explore this important topic and engage with stakeholders in the process.

Deloitte New Zealand is part of a global network of firms. Our global firm, Deloitte Touche Tohmatsu Limited ('DTTL' or 'Deloitte Global') confirmed it will not adopt the LCE standard globally because Deloitte has already adapted and scaled the full suite of International Standards on Auditing ('ISAs') within our methodology, technology, and tools for less complex engagements. DTTL's submission on the exposure draft of the *Proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities* issued by the International Auditing and Assurance Standards Board ('IAASB') can be accessed [here](#).

As a result, to implement the LCE standard would necessitate additional local investment in tools, resources and training, which we do not believe would provide sufficient proportionate benefits. Additionally, requirements to revert to the full ISAs in certain circumstances, including those set out in par 6.5.1 of the standard, introduces complexity and uncertainty in the application of the LCE standard.

Given the above, should the LCE standard be adopted in New Zealand, we ask that its application remains voluntary, ensuring that firms wishing to continue applying the full suite of the ISAs scaled for less complex engagements, can do so.

Furthermore, we provide the following overall comments:

### Market perceptions

We encourage the XRB to further investigate the "marketplace" reaction to the proposed standard, to gauge the understanding, interest and demand of users for this different engagement. We consider that the risks and benefits identified by the XRB should be carefully weighted and that more information is needed to understand the impacts of perceptions in relation to 'lower audit quality' and a 'two-tiered' audit approach.

In addition, as Australia has not adopted the LCE standard, further analysis is required on the impact that a lack of harmonisation will have across our jurisdictions given the closeness of our markets and cross border activities, in particular for groups.

## NZ Part 11 Audit of Service Performance Information

We note the XRB's proposal to add Part 11 *Audit of Service Performance Information* to the LCE standard. We understand this part has been developed with reference to the approach in New Zealand Auditing Standard 1 (Revised) *the Audit of Service Performance information* ('NZ AS 1') but tailored and proportionate to an audit of a less complex entity.

We agree that the addition of Part 11 maintains the standalone nature of the LCE standard in New Zealand, avoiding the need to use it in conjunction with NZ AS 1. However, we note that due to its nature, performance information is distinct from the historical financial information as a subject matter and could be subject to different risks and complexities.

Given the judgements in applying the LCE standard, a key question is whether there are circumstances where it may be appropriate to apply the LCE standard for the audit of the financial statements but where risks and complexities within the service performance information could warrant the use of NZ AS 1 instead of [NZ] Part 11 of the LCE standard.

If such circumstances exist, it is unclear how this may impact the practical application of the LCE standard as a whole or if such complexities within the performance information (notwithstanding a less complex nature of financial information) would mean the LCE standard cannot be applied, given its intended standalone nature.

We therefore encourage the XRB to investigate this further in order to provide clarity as to the application of part 11 in such circumstances.

Please do not hesitate to contact us if you require any further clarification.

Yours sincerely,



Victoria Turner  
Partner  
**for Deloitte Limited**