



External Reporting Board  
Level 6, 154 Featherston St.  
Wellington 6142 New Zealand

By email: [assurance@xrb.govt.nz](mailto:assurance@xrb.govt.nz)

28 February 2025

## **Subject: Proposed new audit standard for less complex entities - PwC response**

Dear Bruce,

We appreciate the opportunity to submit our views on the External Reporting Board's (XRB) Proposed new auditing standard for less complex entities "ISA (NZ) for Less Complex Entities".

This response is on behalf of PricewaterhouseCoopers New Zealand (PwC NZ). References to "PwC", "we" and "our" refer to PwC NZ only.

### **Overall comments**

While in principle we support initiatives to streamline audit processes and procedures without sacrificing quality, we do not believe the XRB's proposal to introduce a new auditing standard for less complex entities ("LCE") will be effective in achieving this. The existence of two standards will always create a perception that the LCE standard will result in substantially less time and effort which will rarely be the outcome.

The issue is that no amount of explanatory materials will likely overcome this perception by audit clients and practitioners, and that just because a different standard is utilised (i.e. the LCE standard) doesn't mean less work can be performed as the requirements remain the same.

Using a few small audit clients as test cases, we compared the scalable guidance in the existing ISAs with the proposed LCE standard and concluded we would effectively do the same amount of work. There is already speculation by certain practitioners that this new standard will lead to less work on these types of engagements, with the hopes that it will remove more fundamental aspects of the requirements such as the amount of substantive procedures necessary to address a risk, or the amount of documentation necessary to support those procedures.

This mismatch between practitioner hopes of what the standard will achieve, and the reality of what is included in the standard, will lead to inevitable frustration stemming from the fact that the entire purpose of this standard was to make audits for less complex entities easier, but if the requirements are substantially the same, this will never actually materialise leading to confusion and frustration in the profession and may harm audit quality. Therefore we do not believe adopting this standard will provide a net positive outcome for New Zealand.



### Questions for respondents

Our responses to the specific questions raised in the consultation document are attached in Appendix A. We appreciate the opportunity to provide feedback on the proposed standard. Please do not hesitate to contact me should there be any matters you would like to discuss further.

Yours sincerely,

A handwritten signature in black ink, appearing to read 'Jon Freeman', written in a cursive style.

Jon Freeman  
Risk Management Partner



## Appendix A

Our responses to the specific questions raised in the consultation document	
Question number	Response
Q1. 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?	<p>The risks focus on the perception related to users of the financial statements, but do not sufficiently address perceptions by practitioners. There is already significant speculation within the profession that this standard is needed because “we are required to perform too many audit procedures for smaller audit clients”, but the reality is that other than a few exceptions which we consider would rarely be material or relevant to the LCE anyway, the required audit procedures are effectively the same.</p> <p>The risk is that even if the wording of the two standards is similar, this perception means the interpretation will likely be read in a way that suggests less is required for the LCE standard which is not true. The existing ISAs are already drafted with scalability in mind and if a minimum level of work is unable to be achieved through that scalability, this should not open the door for allowing even less work. If it does, this means we have effectively created two tiers of audits driven entirely by the perceptions of those in the profession.</p> <p>The only way this can be overcome is if the guidance is clear that the level of audit procedures and related documentation is unlikely to differ between the standards, and the messaging is clear that the main benefit of this standard is that it creates an abridged version which is easier to read for the practitioner, but doesn’t mean less work is required.</p>
Q2. Do you consider that the benefits of adopting the ISA for LCE in New Zealand outweigh the costs and risks of doing so? Why?	<p>We do not believe the benefits outweigh the costs. Once this is in the market, firms and practitioners will need to manage perceptions of clients and audit professionals that this does not open the door for less audit procedures and a cheaper audit. If it’s an ISA compliant audit, we should get to the same outcome under either set of standards thus creating the ongoing confusion as to why this new set of standards exists.</p>



<p>Q3. Will you or your firm use the ISA (NZ) for LCE? When? Please provide your rationale.</p>	<p>We are unlikely to use this new standard. We already have scalable guidance and workpaper technology that supports the existing ISAs. Given this effectively requires the same level of work, adoption would create confusion amongst our practitioners. It will also create additional work as guidance manuals, templates and other firm resources will effectively need to be doubled which will lead to increased maintenance costs.</p>
<p>Q4. Does the timing of the maintenance of the ISA for LCE affect your view on its adoption? Why?</p>	<p>We believe the fact that requirements in the main ISAs will be adopted into the LCE standards with a delay reinforces the view that this creates two tiers of audits. Using the upcoming standards as examples, a new requirement should only be introduced into the Going Concern or Fraud standards if it's necessary to support increased audit quality. If this new requirement is necessary to support a base level of audit quality, its absence from the LCE standard in the delay period implies that the LCE standard will provide a lower level of audit quality during this time period. If the additional requirements in the main ISAs have not contributed to a base level of audit quality, we should question why they were added to the main ISAs in the first place.</p>
<p>Q5. 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?</p>	<p>Yes.</p> <p>The draft LCE standard in its current form does not include the incremental requirements for FMC entities with higher public accountability, such as key audit matter requirements, therefore they are not fit for purpose in their current state for FMC entities with higher public accountability.</p> <p>If the standards were to be updated to include these incremental requirements, then it would beg the question why they are not allowed for listed entities, especially given the premise that both standards provide the same level of assurance.</p> <p>If we are limiting this for listed entities, then we believe it's appropriate to limit FMC reporting entities with higher public accountability to align with the NZ amendments.</p>

<p>Q6. 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?</p>	<p>No concerns with this approach.</p>
<p>Q7. 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?</p>	<p>No</p>
<p>Q8. 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?</p>	<p>Other than a few exceptions, the requirements are the same in both sets of standards, therefore it feels arbitrary to use a quantitative threshold to move from one set of standards to another because an entity crossed an arbitrary numerical threshold.</p> <p>It appears to us the LCE standard is more about the size of the practitioner than the size of the audit client. Perhaps the threshold should be audit firms with less than 30 staff (to identify the types of practitioner that might benefit), otherwise they are reaching a size where they should be able to manage the overhead costs of building templates for the full suite of ISAs.</p>
<p>Q9. Do you support the addition of Part 11 in the ISA (NZ) for LCE to enable the audit of SPI?</p>	<p>No concerns with this approach</p>
<p>Q10. 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?</p>	<p>No comment</p>
<p>Q11. Do you agree that the EEM included in Part 11 is appropriate? If not, what do you recommend?</p>	<p>No comment</p>



<p>Q12. What requirements in proposed ISA (NZ) for LCE could cause challenges for SPI? Do you have any suggestions on how to mitigate these challenges?</p>	<p>No comment</p>
<p>Q13. Do you have any comments on the proposed New Zealand specific amendments or the Conforming amendments arising from the ISA (NZ) for LCE?</p>	<p>It is noted the current requirement to obtain a legal letter from in-house legal counsel has not been included for situations where in-house legal counsel has primary responsibility. This is paragraph NZ10.1 in ISA (NZ) 501. While it will be uncommon for these types of entities to have in-house legal counsel, the fact that the scope does not have a size threshold means the standard could be used on a large private company which could encounter litigation. Therefore it seems reasonable to include this for consistency purposes.</p>
<p>Q14. Do you agree with the proposed application date of periods beginning on or after 15 December 2025? If not, why not?</p>	<p>Indifferent as we will likely not use it</p>
<p>Q15. Do you have any other comments on the proposed standard?</p>	<p>No further comments</p>