

# A proposed auditing standard for Less Complex Entities

## Overview of the proposed approach and what it means for you

**If you're an organisation that regularly requests or uses audit reports, or an entity subject to audits, a new approach is being proposed for audits of Less Complex Entities (LCEs).**

LCEs span the for-profit, not-for-profit and Public sectors and may:

- Be owned or managed by a small number of people with responsibility for a broad range of controls
- Have few personnel that conduct a wide range of duties
- Conduct straightforward transactions
- Practice simple record-keeping and have few internal controls
- Have limited lines of business and products.

### What auditors mean by LCE?

In the auditing world, entities that have simple business structures, straightforward types of business transactions and simple record keeping practices can be referred to as **Less Complex Entities (LCEs)**. This description contrasts them from more sophisticated and complex entities such as listed companies (e.g., Air New Zealand).

### Current auditing approach

Currently, all entities, regardless of complexity, are audited in accordance with the same standards - the **International Standards on Auditing (ISAs)**. However, there has been growing concern about the length, relevance, and understandability of the ISAs, and their application to audits of LCEs.

### A proposed solution

In response to these concerns, the International Auditing and Assurance Standards Board (IAASB) has developed a draft stand-alone standard, that will allow audits to be scalable and proportionate for LCEs. The draft standard is designed to:

- Be understandable, clear and concise
- Support global consistency and comparability and;
- Enable quality audits.

### What this means for:

**Users of financial statement:** You will continue to receive an auditor report that lets you know whether the auditor is of the opinion that the financial statements are fairly presented in all material respects. However, the auditor will let you know that they have conducted their audit in accordance with the proposed auditing standard for LCEs (instead of the ISAs).

**Audited entities:** Your responsibilities in an audit of financial statements would remain the same. However, your auditor will communicate to you, in the audit engagement letter, whether they have concluded your entity to be LCE.

### Key questions

- Would you like to know in advance (i.e., before the audit engagement starts) whether the auditor intends to use the proposed LCE auditing standard?
- Would you be happy for the audit to be undertaken in accordance with the proposed LCE auditing standard?
- Does it make a difference to you which auditing standard (the proposed LCE auditing standard or ISAs) the auditor has applied in conducting their audit?
- Do you believe that an audit in accordance with the proposed LCE auditing standard would meet your needs?

### Tell us what you think

There are a number of ways you can provide feedback:

- Email us at [equiries@xrb.govt.nz](mailto:equiries@xrb.govt.nz)
- Submit via our **comment form**
- Participate in one of our **events**

For further information **click here**.  
Comments and feedback are due by  
**5 November 2021**.

