Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Deep dive on the ISA (NZ) for LCE

Audits of Less Complex Entities

23 October 2025

Presenter:
Bruce Mcniven

Agenda

- Why was this standard developed?
- What is the ISA (NZ) for LCE?
- What is the process an auditor goes through to decide whether or not to use this standard?
- What's inside?
- Auditing service performance information
- Maintenance plans
- What's happening in other countries?
- Resources available
- Questions

Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

Our purpose

Promoting trust and confidence, transparency and accountability through high-quality external reporting and assurance.

What we deliver

Reporting strategies and frameworks

Financial reporting standards

Climate standards

Auditing and assurance standards

Who standards apply to is determined by legislation

What is in the standard is determined by the XRB

The outcomes we seek

Trusted

Informative

Integrated

Polling Questions

1. What's your background?

2. If you are an auditor – Are you planning to adopt the ISA (NZ) for LCE?

If you are an auditor, we are also interested in finding out what barriers or challenges you face in deciding whether to start using the standard – please let us know in chat or email assurance@xrb.govt.nz

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Why was this standard developed?

New Zealand has many less complex entities

Need for a proportionate and tailored standard

Globally consistent standard, with local additions for relevance

Option for use when auditing less complex entities

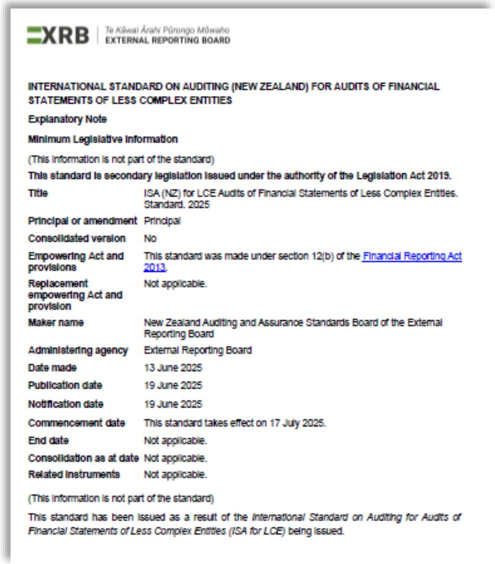
What is the ISA (NZ) for LCE?

Stand-alone auditing standard

Tailored to the needs of an audit of a less complex entity

Reasonable assurance

Auditor’s judgement decides if entity is a LCE



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INTERNATIONAL STANDARD ON AUDITING (NEW ZEALAND) FOR AUDITS OF FINANCIAL STATEMENTS OF LESS COMPLEX ENTITIES

Explanatory Note

Minimum Legislative Information

(This information is not part of the standard)

This standard is secondary legislation issued under the authority of the Legislation Act 2019.

Title	ISA (NZ) for LCE Audits of Financial Statements of Less Complex Entities. Standard. 2025
Principal or amendment	Principal
Consolidated version	No
Empowering Act and provisions	This standard was made under section 12(b) of the Financial Reporting Act 2013.
Replacement empowering Act and provision	Not applicable.
Maker name	New Zealand Auditing and Assurance Standards Board of the External Reporting Board
Administering agency	External Reporting Board
Date made	13 June 2025
Publication date	19 June 2025
Notification date	19 June 2025
Commencement date	This standard takes effect on 17 July 2025.
End date	Not applicable.
Consolidation as at date	Not applicable.
Related instruments	Not applicable.

(This information is not part of the standard)

This standard has been issued as a result of the *International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (ISA for LCE)* being issued.

Applicable for periods beginning on or after **15 December 2025**

When does the auditor determine whether the ISA (NZ) for LCE is appropriate to use?

1. **At acceptance or continuance stage**
2. **After performing procedures to identify and assess the risks of material misstatement**
3. **Concluding the audit**

What is the process an auditor goes through to determine whether or not to use the standard?

Specific prohibitions: Is this a type of entity for which the use of the standard is prohibited?

Yes

No

Firm policies or procedures: Is the auditor prohibited from using the standard under firm policies or procedures?

Yes

No

Engagement level evaluation: Does the audit exhibit qualitative characteristics that would make the standard inappropriate to use?

Yes

No

Decision | May use ISA (NZ) for LCE | Cannot use ISA (NZ) for LCE

Engagement level evaluation

Consider the qualitative characteristics:

- Business activities and model
- Organisation structure and size
- Ownership structure
- Nature of finance function
- Information technology
- Financial reporting framework and accounting estimates

The auditor applies professional judgement in determining whether the entity is a less complex entity

The standard requires the auditor to document the basis for the determination made for using the ISA (NZ) for LCE

What about group audits?

Involvement of component auditor(s) is limited to circumstances in which a physical presence is needed for specific audit procedures, eg: stocktake

Qualitative characteristics – additional characteristics relevant for group audits

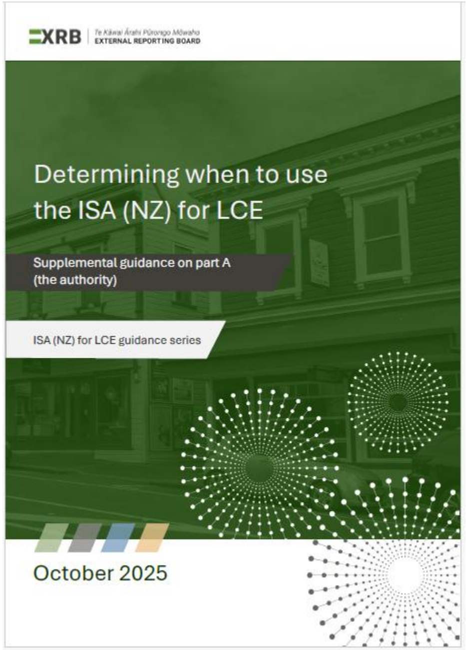
- Group structure and activities
- Access to information or people
- Consolidation process.

Key messages

- If in doubt, you are out
- Numbers guide, judgement decides
- Reconsider the characteristics on recurring audits
- Consider the characteristics both individually and in combination

GUIDANCE

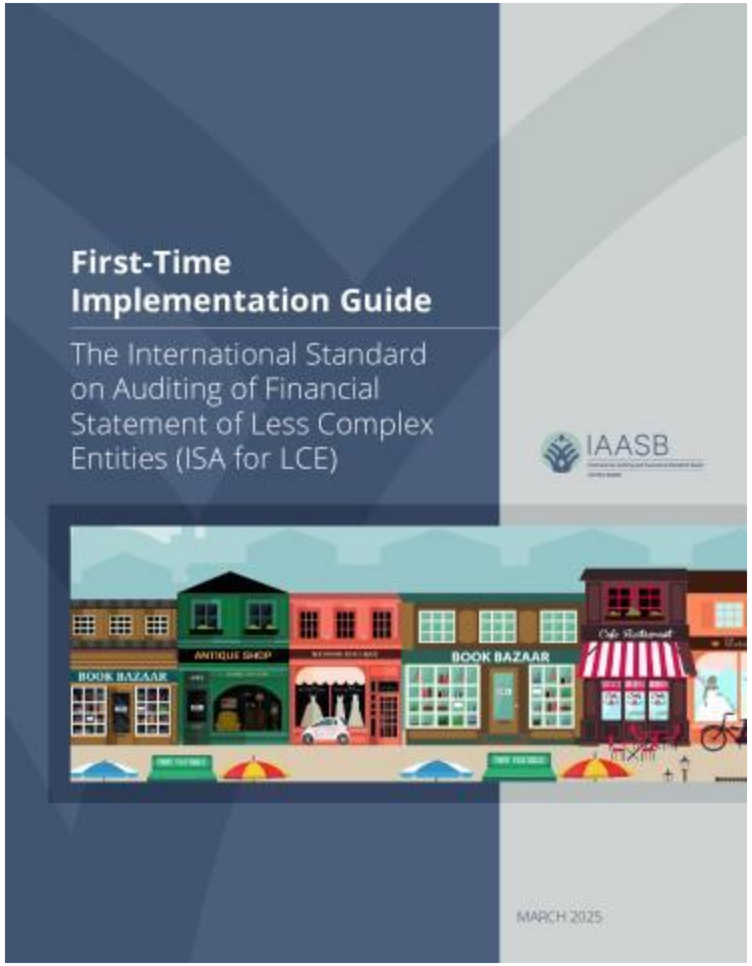
Further guidance on the qualitative characteristics is available on our website.



Transition from ISA (NZ) for LCE to ISAs (NZ)

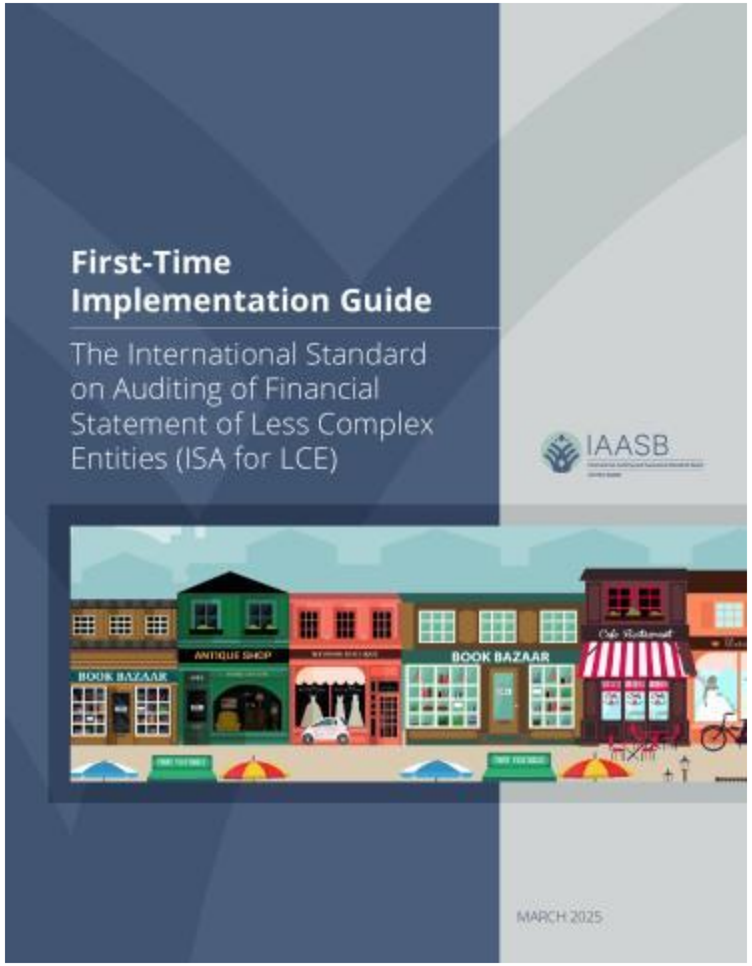
It is anticipated that it should be relatively rare for an audit of an entity to need to transition after engagement acceptance or continuance from using the ISA (NZ) for LCE to using the ISAs (NZ)

- Re-establish the **terms of engagement**
- **Re-issue comms** with management and those charged with governance (fraud, going concern, etc...)
- **Evaluate** whether sufficient work as been performed in the **planning** phase
- **Consider** whether there are any **additional procedures** required on **opening balances**.



Transition from ISA (NZ) for LCE to ISAs (NZ)

- **Evaluate** the **sufficiency and appropriateness of work already performed**
- **Design and perform additional procedures necessary** to comply with all applicable ISA (NZ) requirements, with additional documentation as appropriate
- **Undertake other actions as considered necessary** to meet the objectives of the ISAs (NZ).



2. Audit Evidence and Documentation

Content of this Part

Part 2 sets out the requirements to be applied throughout the audit for:

- Audit evidence.
- Documentation. Within individual Parts there may also be additional specific documentation requirements.

Scope of this Part

The requirements in this Part apply throughout the audit engagement.

2.1. Objectives

1. The objectives of the auditor are to:

   (a) Design and perform audit procedures in such a way as to enable the auditor to obtain sufficient appropriate audit evidence to be able to draw reasonable conclusions on which to base the auditor's opinion; and

   (b) Prepare documentation that provides a sufficient and appropriate record of the basis for the auditor's report and provides evidence that the audit was planned and performed in accordance with the ISA (NZ) for LCE and applicable law or regulation.

2.2 Sufficient Appropriate Audit Evidence

1. To obtain reasonable assurance, the auditor shall obtain sufficient appropriate audit evidence to reduce audit risk to an acceptably low level thereby enabling the auditor to draw reasonable conclusions on which to base the auditor's opinion.

2. The auditor shall design and perform audit procedures that are appropriate in the circumstances for the purpose of obtaining sufficient appropriate audit evidence.

Sufficiency is the measure of the quantity of audit evidence. It is affected by the auditor's assessment of the risks of material misstatement (the higher the assessed risks, the more audit evidence is likely to be required) and also the quality of the audit evidence (the higher the quality, the less may be required). Obtaining more audit evidence, however, may not compensate if it is of poor quality.

Appropriateness is the measure of the quality of the audit evidence, that is its relevance and reliability in providing support for the conclusions on which the auditor's opinion is based.

Most of the auditor's work in forming the auditor's opinion consists of obtaining and evaluating audit evidence. Whether sufficient appropriate audit evidence has been obtained to reduce audit risk to an acceptably low level, and thereby enable the auditor to draw reasonable conclusions on which to base the auditor's opinion, is a matter of professional judgment.

INTRODUCTION

Summary of the content and scope of the Part

OBJECTIVE

Link the requirements of the Part and the overall objectives of the auditor

REQUIREMENTS

Designed to obtain sufficient appropriate audit evidence

Auditor must comply with all relevant requirements

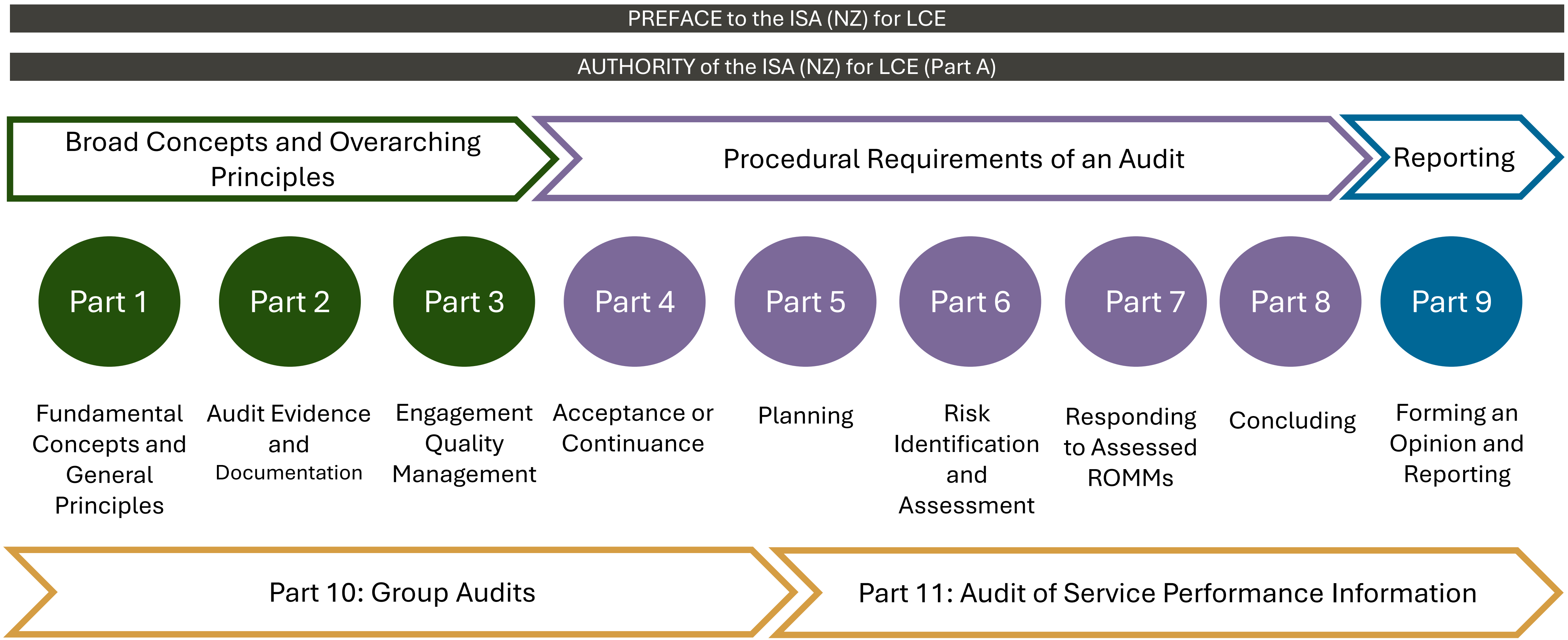
ESSENTIAL EXPLANATORY MATERIAL

Limited guidance where essential to understanding or applying a requirement or a concept

Does not impose a requirement or expand any requirement

Located directly by the relevant requirement

What’s inside?



What's inside?

PREFACE to the ISA (NZ) for LCE

AUTH

Broad Concepts and Overarching Principles

Part 1

Fundamental Concepts and General Principles

Part 2

Audit Evidence and Documentation

Part 3

Engagement Quality Management

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Accept Contin

- Overall Objectives
- Overarching Requirements
  - Professional Judgment
  - Professional Scepticism
  - Fraud
  - Laws and Regulations
  - Related Parties
- General Documentation & Communication Requirements
- Engagement Quality Management

Part 10: Group Audits

Part 11: Audit of Service Performance Information

What's inside?

PREFACE to the ISA (NZ) for LCE

AUTHORITY of the ISA (NZ) for LCE (Part A)

Broad Concepts and Overarching Principles			Procedural Requirements of an Audit					Reporting
Part 1	Part 2	Part 3	Part 4	Part 5	Part 6	Part 7	Part 8	Part 9
Fundamental Concepts and General Principles	Audit Evidence and Documentation	Engagement Quality Management	Acceptance or Continuance	Planning	Risk Identification and Assessment	Responding to Assessed ROMMs	Concluding	Forming an Opinion and Reporting

- Audit concepts are grouped based on the phase of the audit (e.g., Planning includes requirements around determining materiality, Concluding includes evaluation of subsequent events, etc.)
- Includes appendices to provide additional guidance

What's inside?

PREFACE to the ISA (NZ) for LCE

AUTHORITY of the ISA (NZ) for LCE (Part A)

- Specified content and format for unmodified auditor's report
- Departures not permitted except for compliance with law or regulation
- Use of tables to present requirements related to modifications and Other Matter / Emphasis of Matter paragraphs
- Also covers Other Information & Comparative Information
- Supplemental Guidance will be issued soon Illustrative auditor reports

Reporting

Part 9

Forming an Opinion and Reporting

Part 10: Group Audits

Part 11: Audit of Service Performance Information

Auditor’s report

Basis for Opinion

We conducted our audit in accordance with the International Standard on Auditing (New Zealand) for Audits of Financial Statements of Less Complex Entities (the ISA (NZ) for LCE). Our responsibilities under the ISA (NZ) for LCE are further described in the *Auditor’s Responsibilities for the Audit of the [Financial Report/ Performance Report]* section of our report...

...

Auditor’s Responsibilities for the Audit of the Performance Report

Our objectives are to obtain reasonable assurance about whether the performance report as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISA (NZ) for LCE will always detect a material misstatement when it exists.

What's inside?

PREFACE to the ISA (NZ) for LCE

AUTHORITY of the ISA (NZ) for LCE (Part A)

Broad Concepts and Overarching Principles | Procedural Requirements of an Audit | Reporting

Part 5 – Planning | Part 6 – Risk Identification and Assessment | Part 7 – Responding to Assessed ROMMs | Part 8 – Concluding | Part 9 – Forming an Opinion and Reporting

- Includes group audit considerations for each phase of the audits
- Only applicable in the context of an audit of group financial statements

Part 10: Group Audits

Part 11: Audit of Service Performance Information

What's inside?

PREFACE to the ISA (NZ) for LCE

AUTHORITY of the ISA (NZ) for LCE (Part A)

Broad Concepts and Overarching Principles | Procedural Requirements of an Audit | Reporting

Documentation | Management

All parts of the ISA (NZ) for LCE apply when auditing an LCE that reports service performance information and that service performance information is subject to audit

- Enables the audit of service performance information (SPI)
- Designed to follow the flow of an audit of SPI

Part 10: Group Audits | Part 11: Audit of Service Performance Information

Two-step approach

1. Is the SPI appropriate and meaningful in accordance with the applicable financial reporting framework?

2. Does the reported SPI fairly reflect the actual service performance and is not materially misstated?

3 layers of service performance information

1.

Elements or aspects of service performance

Provide safe drinking water

2.

Performance measure or description

100% of drinking water is safe

3.

Measurement basis or evaluation method

Drinking water standards of NZ or internal measurement criteria

Part 11: Materiality

Ref. para 11.6.1	**Use understanding of entity to determine significant elements/aspects of SPI**

- What is important to intended users
- Focus audit efforts

Ref. para 11.6.2	**Consider materiality for qualitative SPI** **Determine materiality for quantitative SPI**

- Unlikely to be an overall materiality
- Different unit for each measure
- Matter of professional judgement

Summary of Part 11

Planning

- Terms of engagement
- Planning activities
- Understanding relevant aspects of the entity and SPI

Step 1: Evaluate whether the SPI is appropriate and meaningful

- Applicable financial reporting framework
- Materiality

Risk assessment & response

Step 2: Assess whether the reported SPI fairly reflects the actual service performance & is not materially misstated

- Identifying and assessing the risks of material misstatement (ROMM)
- Audit procedures responsive to the assessed ROMM

Evidence & evaluation

- Sufficient appropriate audit evidence
- Evaluation of misstatements

Reporting & communication

- Written representations
- Forming an opinion
- Auditor's report
- Comparative & prospective SPI
- Other information

Other areas

- Specific focus areas
- Communication requirements
- Documentation requirements

What topics are covered by the full ISAs (NZ) but are not in the ISA for LCE, because they are typically not applicable to an audit of a less complex entity?

Topic	ISA for LCE requirement	Relevant ISA (NZ)
Requirements specific to listed or more complex entities – reporting on segment information or key audit matters	Not included	Reporting on Segment information (ISA (NZ) 501) Reporting on Key Audit Matters (KAMs) (ISA (NZ) 701)
Requirements when the auditor intends to use the work of internal auditors	Not included	Using the Work of Internal Auditors (ISA (NZ) 610 (Revised 2013))

What topics are covered by the full ISAs (NZ) but are not in the ISA for LCE, because they are typically not applicable to an audit of a less complex entity?

Topic	ISA for LCE requirement	Relevant ISA (NZ)
Requirements with respect to using component auditors	Not included except when the component auditor’s involvement is limited to circumstances in which a physical presence is needed for a specific audit procedure for the group audit.	Considerations when Component Auditors are Involved (ISA (NZ) 600 (Revised))
Requirements when using a service organisation	Minimal requirements.	Audit Considerations Relating to an Entity Using a Service Organisation (ISA (NZ) 402)

Plans to update the ISA (NZ) for LCE

- Three-year stability period until December 2028
- **First update to the ISA (NZ) for LCE**

International monitoring

✓

- New Zealand
- Bangladesh
- Czech Republic
- Finland
- Norway
- Sweden
- Sri Lanka
- Hong Kong
- Greece
- Iceland
- India
- Mexico
- Poland

X

- Australia
- Canada
- South Africa
- Saudi Arabia
- UK

xrb.govt.nz/isa-for-lce

VIEW THIS STANDARD IN THE STANDARDS NAVIGATOR

IAASB guidance and other resources

Resources, including videos are available on the IAASB's website

- Adoption guide
- Auditor reporting
- Authority of the standard
- Basis for conclusions
- Fact sheet
- FAQs 2025
- First time implementation guide

New Zealand guidance and other resources

Explanation for decisions made
Supplemental guidance for the Authority

Video resources:
Introduction to the ISA (NZ) for LCE
Navigating the ISA (NZ) for LCE
Determining when to use the ISA (NZ) for LCE