Friday, 25 September 2026

Wendy Venter FCA
Chief Executive
External Reporting Board
Level 6, 154 Featherston Street
Wellington 6011

By email: assurance@xrb.govt.nz

Dear Wendy

XRB Consultation Document: ISA (NZ) for LCE

Chartered Accountants Australia and New Zealand (CA ANZ) appreciates the opportunity to provide comments to the External Reporting Board (XRB) on the above consultation. We make this submission on behalf of our members and in the public interest. This submission is informed by engagement with our members who are assurance practitioners.

We commend the XRB for responding promptly to concerns raised by auditors during the implementation of ISA (NZ) for LCEs. These concerns highlight a barrier to adoption of the standard by audit firms that may discourage its use and limit the benefits it was intended to deliver. We also appreciate the XRB's efficient approach of consulting on these proposals in parallel with the IAASB's proposed amendments to the ISA for LCE standard, which avoids having multiple rounds of amendments.

Our responses to the specific questions raised in the consultation document are in Appendix A. Appendix B provides more information about CA ANZ. Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact Zowie Pateman FCA, Deputy Leader – Reporting and Assurance at Zowie.Pateman@charteredaccountantsanz.com

Yours sincerely

Peter Vial FCA

New Zealand Country Head

Amir Ghandar FCA

Reporting and Assurance Leader

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Appendix A

Responses to consultation questions

New Zealand specific amendments

1. Do you agree with our understanding and our view on the necessary amendments?

The XRB consultation document provides a high-level overview of the issue. While this appropriately summarises the concern, it does not provide detailed context on the practical audit scenarios that have highlighted the need for the proposed amendments. This issue was first brought to our attention at the Audit Assistant Conference in Christchurch in March 2026, which was attended by CA ANZ representatives.

The two main use cases that were originally identified for the ISA (NZ) for LCEs standard were audits of registered charities and schools. Many charities with surplus accumulated funds outsource the management of their investments to professional fund managers (investment management service organisations) to support prudent financial management. A charity's annual investor statement from the fund manager contains the number of units held at year-end (which also determines the value of the investment when multiplied by the unit price). However, investments held under custody are held as a single holding in the name of the custodian on behalf of the investor as the beneficial owner. This means the auditor is unable to agree the charity's holdings through independent means and needs to perform additional audit procedures over ownership (the rights and obligations assertion) to obtain sufficient appropriate audit evidence. Ordinarily, the primary way auditors obtain this evidence is through obtaining the service organisation's type 2 controls report which contains an independent assurance report on the description, design and operating effectiveness of controls at the service organisation.

This issue is not unique to New Zealand. In Australia, audits of self-managed superannuation funds (SMSFs) were identified as a potential use case for the ISA for LCE standard. However, many SMSFs use service organisations, and the AUASB noted that the international standard did not include provisions addressing the use of service organisations. This was among the matters considered by the AUASB when it decided not to adopt the ISA for LCE in Australia at that time.[1]

The Essential Explanatory Material (EEM) to paragraph A.3 on 'Qualitative Characteristics' conveys that the ISA (NZ) for LCE standard does not include any requirements addressing when an auditor intends to use a type 1 or type 2 controls report as audit evidence. The

[1] LCE Feedback Statement, AUASB, December 2023

wording in the extant standard has been interpreted by some auditors to mean that the ISA (NZ) for LCEs standard cannot be used where the auditor would need to use type 1 or type 2 controls reports. Therefore, we agree that targeted New Zealand amendments are needed to address this issue. We believe that the proposed amendments appropriately respond to this issue while preserving the overall objectives and principles of the ISA (NZ) for LCE standard. In particular, we support the proposal to introduce limited requirements drawn from ISA (NZ) 402 only where necessary to enable the use of controls reports as audit evidence.

2. Do you agree the proposals are appropriately scoped and proportionate? If not, why not and what changes do you suggest?

We consider the proposals appropriately balance audit quality, practicality, and proportionality. In particular, we support excluding requirements that would be unlikely to arise in typical less complex entity audits or that may be inconsistent with the less complex nature of entities within the scope of the standard.

3. Do you agree that the requirements and Essential Explanatory Material are clear and workable? If not, what changes would help improve clarity or application?

The proposed requirements and EEM provide a clear framework for auditors seeking to use controls reports and appear capable of being applied in practice. The inclusion of definitions, requirements, and guidance concerning the evaluation of controls reports should assist consistent application. However, we recommend the following changes to further improve clarity or application:

- Adding a reference to the service auditor at paragraph 9.4.3 to incorporate paragraph 21 of ISA (NZ) 402. The revised paragraph would read as follows, with new text underlined:

  9.4.3. The auditor shall not refer to the work of an auditor's expert <u>or service auditor</u> in an auditor's report containing an unmodified opinion unless required by law or regulation to do so.

- Adding "investment management and custody services" to the example in the EEM at paragraph 6.3.11 in addition to "processing of payroll and payment of payroll taxes", to ensure that it is clear to users that the specific circumstances which have given rise to the proposed amendments are permitted by the standard.

4. Do you agree that the expected benefits of the proposed amendments, listed on page 7, outweigh the implementation costs and other practical challenges? If not, why not?

We agree that the expected benefits outweigh the implementation costs and practical challenges identified by the XRB. The proposed amendments should improve the usability of ISA (NZ) for LCE in New Zealand by removing a barrier to adoption while maintaining audit

quality. They should also promote greater consistency in practice by providing a clear basis for the use of controls reports where appropriate.

The implementation costs identified, including methodology updates, staff training and documentation changes, appear reasonable and proportionate. Given that many firms are already familiar with the underlying concepts and requirements in ISA (NZ) 402, we expect those costs to be manageable and largely one-off in nature.

5. **Are there any other benefits or costs that we should consider?**

We do not anticipate significant additional benefits or costs beyond those identified in the consultation document.

6. **Do you agree with an application date of periods beginning on or after 1 March 2026?**

We support the proposed application date and the availability of early adoption. The amendments address a barrier to adoption of the ISA (NZ) for LCE standard and therefore there is merit in making the changes available as soon as practicable. We agree that an earlier effective date may avoid unnecessary rework by firms that are currently developing methodologies and tools for less complex entity audit engagements.

IAASB's proposed amendments

7. **We seek your views on the questions raised in the IAASB's explanatory memorandum.**

We will be making a submission to the IAASB jointly with the ACCA, and we are still assessing the proposals and forming our view. Our preliminary view is that we broadly support the IAASB's proposals, and we agree with the objective of ensuring the standard remains aligned with developments in the full ISAs while preserving its proportionate and scalable nature. We will also raise the issue of the use of service organisations and reliance on controls reports and support the inclusion of provisions equivalent to the proposed New Zealand amendments within the international ISA for LCE standard.

We also encourage the XRB to advocate with the IAASB for the targeted New Zealand amendments concerning controls reports to be incorporated into the international ISA for LCE standard.

8. **Do you agree that the expected benefits of the proposed amendments, in the IAASB exposure draft outweigh the implementation costs and other practical challenges, listed on page 9? If not, why not?**

We agree with the assessment that the benefits outweigh the costs. The proposed amendments will help maintain confidence in the ISA for LCE standard as a credible and internationally aligned auditing standard while ensuring that important developments in areas such as fraud and going concern are appropriately reflected.

Although firms will incur implementation costs associated with methodology changes, training and quality management systems, these costs are a necessary consequence of maintaining alignment with evolving auditing standards and supporting ongoing audit quality.

9. Are there any other benefits or costs that we should consider?

We do not anticipate significant additional benefits or costs beyond those identified in the consultation document.

10. Do you agree we should replace references from listed entity to publicly traded entity?

We agree with replacing references to ‘listed entity’ with ‘publicly traded entity’. The proposed terminology better aligns with the underlying public interest rationale and is more closely aligned with developments in the international Code of Ethics and auditing standards.

11. Are there any compelling reason changes the XRB should make in New Zealand?

Based on the proposals consulted on, we have not identified any compelling New Zealand-specific circumstances that would justify departing from the IAASB’s proposed amendments. We therefore support adoption of the international proposals without substantive New Zealand modifications, other than changes necessary to reflect New Zealand legislative references, terminology and drafting conventions.

We continue to support the XRB’s general approach of adopting international standards wherever appropriate, with New Zealand-specific modifications made only where necessary to address local legal, regulatory or public-interest considerations.

Appendix B

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents nearly 143,000 financial professionals, supporting them to build value and make a difference to the businesses, organisations and communities in which they work and live.

Around the world, Chartered Accountants are known for their integrity, financial skills, adaptability and the rigour of their professional education and training.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate in the public interest. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations.

We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 16 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We also have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.