Audit Assistant

Submission on ISA (NZ) for LCE — Proposed Amendments

Consultation closing 25 September 2026

25 September 2026

New Zealand Auditing and Assurance Standards Board (NZAuASB)

By email: assurance@xrb.govt.nz

Re: Consultation on Proposed Amendments to the ISA (NZ) for LCE

Audit Assistant Limited welcomes the opportunity to comment on the New Zealand Auditing and Assurance Standards Board's (NZAuASB) consultation document, ISA (NZ) for LCE – Proposed Amendments (August 2026).

Audit Assistant is a New Zealand-based cloud audit software platform used by more than 80 audit firms and sole practitioners in New Zealand, as well as firms in Australia and internationally.

We expect a large majority of our New Zealand user base will adopt the ISA (NZ) for LCE, and we have had direct discussions with many of these users about their plans for adoption of the standard, which gives us a reasonably broad vantage point on issues relating to the adoption and application of the standard.

This submission responds only to Part 3 of the consultation – the proposed New Zealand-specific amendments relating to the use of controls reports from service organisations as audit evidence. We have not commented on Part 4 (the IAASB's international proposals to maintain the ISA for LCE).

We have separately provided editorial comments on the drafting of the proposed New Zealand-specific amendments directly to XRB staff.

General comments

We support the proposed targeted amendments. In our engagement with auditors using our platform, the current restriction on relying on Type 1 and Type 2 controls reports as audit evidence has been raised repeatedly as a practical barrier to adopting the ISA (NZ) for LCE.

In particular, we have heard concerns from firms about the treatment of controls reports relating to investments managed by a fund manager – which is not uncommon for entities that meet the criteria to apply the standard, including not-for-profit entities. We have heard that

obtaining sufficient evidence over transactions during the period (not just the year-end balance) is challenging where this goes beyond what is provided in periodic investment statements, and that controls reports are often the only practical source of further audit evidence in these circumstances.

Without the proposed amendments, auditors are more likely to default to the full suite of ISAs (NZ) for these engagements, undermining the proportionate framework the ISA (NZ) for LCE was designed to provide.

Responses to consultation questions (Part 3)

Q1: Do you agree with our understanding and view on the necessary amendments?

Yes. The description of current practice matches what we hear from firms: auditors already obtain and read Type 1 and Type 2 reports to understand the nature of services provided, and often also need to rely on those reports as evidence of the design, implementation and operating effectiveness of controls – which the current standard does not fully support. The proposed amendments correctly address this gap.

Q2: Do you agree the proposals are appropriately scoped and proportionate?

Yes. We support the narrow, targeted drafting approach – adding only the ISA (NZ) 402 requirements needed to support reliance on controls reports, and excluding matters that are unlikely to be relevant to LCE audits (such as component auditor procedures).

Q3: Do you agree the requirements and Essential Explanatory Material are clear and workable?

Broadly yes. That said, we recommend the EEM at paragraph 6.3.11 be amended to include the fund manager example, given it was the catalyst for this amendment and will provide helpful clarity.

Q4: Do you agree the expected benefits of the proposed amendments outweigh the implementation costs and other practical challenges?

Yes. The one-off costs identified (updating methodologies, templates and training) are modest and manageable, particularly as firms are already familiar with the underlying ISA (NZ) 402 approach from full-scope audits. The benefit of removing a genuine adoption barrier, and enabling more LCE audits to be performed proportionately, outweighs these costs.

Q5: Are there any other benefits or costs that we should consider?

One further benefit worth noting: enabling reliance on controls reports should also support audit quality, not just efficiency, in engagements where the auditor otherwise has limited direct visibility over a service organisation's processing. We would also note a cost of inaction – if the barrier is not removed, auditors of LCEs that use service organisations may continue to default to the full ISAs (NZ), which increases cost and effort for both auditors and clients without a corresponding audit quality benefit.

Q6: Do you agree with an application date of periods beginning on or after 1 March 2026?

Yes. We also strongly support permitting early adoption, particularly if the amendments are issued before 31 December 2026.

International alignment

While we support these amendments being made in New Zealand ahead of any international change, we encourage the NZAuASB and XRB staff to work with the IAASB to pursue equivalent amendments to the international ISA for LCE. This would reduce the risk of a lasting divergence between the New Zealand and international standards, and extend the benefit of this change to auditors and LCEs in other jurisdictions facing the same practical issue. This may also help encourage adoption of the standard by jurisdictions where this matter may currently be cited as an obstacle to adoption.

Closing

We thank the NZAuASB and XRB staff for the opportunity to comment and would be pleased to discuss any aspect of this submission further.

Ngā mihi,



Dave Bassett

Chief Executive

Audit Assistant Limited