EXPOSURE DRAFT OF PROPOSED INTERNATIONAL STANDARD ON AUDITING FOR AUDITS OF FINANCIAL STATEMENTS OF LESS COMPLEX ENTITIES

Response Form

Guide for Respondents

Comments are requested by **November 17, 2026**. *Note that requests for extensions of time cannot be accommodated due to the timeline for finalization of this proposed revised standard.*

This form is for providing comments on the Exposure Draft of proposed International Standard on Auditing for Audits of Financial Statements of Less Complex Entities (Revised) (ED-ISA for LCE), in response to the questions set out in the Explanatory Memorandum to ED-ISA for LCE. It also allows for respondent details, demographics and other comments to be provided. Use of this form will facilitate the IAASB's analysis of the responses.

You may respond to all questions or only those questions for which you have specific comments.

To assist our consideration and analysis of your comments, please:

- For each question, start by indicating your overall response using the drop-down menu under each question. Include any detailed comments below that, as indicated.
- When providing comments, respond directly to the questions and:
    - Provide the rationale for your answers. If you disagree with the proposals in ED-ISA for LCE, please provide specific reasons for your disagreement and include specific suggestions for changes (including specific wording) that may be needed to the requirements, essential explanatory material or appendices. If you agree with the proposals, it will be helpful for the IAASB to be made aware of this view as support for the IAASB's proposals cannot always be inferred when not stated.
    - Be specific about the Parts, paragraphs or appendices in ED-ISA for LCE to which your responses relate.
    - Refrain from inserting tables or text boxes in your responses.

It is not necessary to include a cover letter containing a summary of your key issues. The response form provides the opportunity to include any other views you wish to place on the public record, should you choose to do so. All responses will be considered a matter of **public record** and will ultimately be posted on the IAASB website.

Use the "**Submit Comment**" button on the web page for proposed ISA for LCE (Revised) to upload the completed form.

Responses to IAASB's Request for Comments in the Explanatory Memorandum for ED-ISA for LCE

PART A: Respondent Details and Demographic information

Your organization's name (or your name if you are making a submission in your personal capacity)	External Reporting Board
Name(s) of person(s) responsible for this submission (or leave blank if the same as above)	Lisa Thomas
Name(s) of contact(s) for this submission (or leave blank if the same as above)	
E-mail address(es) of contact(s)	Lisa.thomas@xrb.govt.nz
Geographical profile that best represents your situation (i.e., the geographical perspective from which are you providing feedback on ED-ISA for LCE). Select the most appropriate option.	Asia Pacific
	If "Other", please clarify
The stakeholder group to which you belong (i.e., the perspective from which are you providing feedback on ED-ISA for LCE). Select the most appropriate option.	Jurisdictional or other standard setter
	If "Other", please specify
Should you choose to do so, you may include information about your organization (or yourself, as applicable).	

Should you choose to do so, you may provide overall views or additional background to your submission. **Please note that this is optional**. The IAASB's preference is that you incorporate all your views in your comments to the questions.

Information, if any, not already included in responding to the questions in Part B:

Click or tap here to enter text.

PART B: Responses to Questions in the Explanatory Memorandum for ED-ISA for LCE

For each question, please start with your overall response by selecting one of the items in the drop-down list under the question. Provide your detailed comments, if any, below as indicated.

Overall Impact

1. Do you agree that ED-ISA for LCE appropriately addresses the **relevant public interest issues** related to the underlying ISA projects and satisfies the identified **qualitative characteristics of the Public Interest Framework**? You are invited to include as part of your response insights on the **implications or effects** of implementing the proposed revisions in ED-ISA for LCE.

   (*See Section I-A and the Appendix in the Explanatory Memorandum)*

Overall response: **Agree, with comments below**

Detailed comments (if any):

The proposed revisions appropriately address the relevant public interest issues and are proportionate to reflect the nature and circumstances of audits of less complex entities (LCEs).

Looking ahead, it is important to balance maintaining high-quality reasonable assurance with a proportionate ISA for LCE. The IAASB should avoid introducing unnecessary requirements that may reduce audit efficiency and diminish the suitability and usefulness for audits of LCEs. For future revisions, we recommend that the IAASB updates the mapping document between the full ISAs and ISA for LCE created to develop the original exposure draft. This would be helpful in assessing the proportionality of the proposals.

The intended benefits of the ISA for LCE cannot be achieved by standard setting alone. A change in mindset by auditors is needed to apply the proportionality built into the standard, tailor work and expectations to the entity's risks and circumstances, and avoid replicating requirements designed for more complex audits.

Other matter – reference to international financial reporting standards

Extant ISA for LCE refers to international financial reporting standards throughout. The IFRS foundation issued guidelines that the accounting standards issued by the International Accounting Board should be referred to as IFRS Accounting Standards. This was operationalized in 2025 IFRS for SMEs which is applicable for annual reporting periods beginning on or after 1 January 2027.

Recommendation

We recommend the IAASB updates references to IFRS Accounting Standards in the ISA for LCE as part of this maintenance project.

Content of ED-ISA for LCE

Part A

2.1. Provide your views on the proposed revisions to **Part A**, *Authority of the ISA for LCE*. Please also share your views on whether the public interest issues identified in the underlying ISA projects are *relevant* to the ISA for LCE and, if so, whether they are addressed in a *proportionate* way.

(See Section I-B in the Explanatory Memorandum)

Overall response: **Support the proposed revisions (with no further comments)**

Detailed comments (if any):

Part 1

2.2. Provide your views on the proposed revisions to **Part 1**, *Fundamental Concepts, General Principles and Overarching Requirements*. Please also share your views on whether the public interest issues identified in the underlying ISA projects are *relevant* to the ISA for LCE and, if so, whether they are addressed in a *proportionate* way.

(See Section I-C in the Explanatory Memorandum)

Overall response: **Support the proposed revisions (with no further comments)**

Detailed comments (if any):

Click or tap here to enter text.

Parts 2 and 3

2.3. Provide your views on the proposed revisions to **Part 2**, *Audit Evidence and Documentation* and **Part 3**, *Engagement Quality Management*. Please also share your views on whether the public interest issues identified in the underlying ISA projects are *relevant* to the ISA for LCE and, if so, whether they are addressed in a *proportionate* way.

(See Section I-D in the Explanatory Memorandum)

Overall response: **Support the proposed revisions (with no further comments)**

Detailed comments (if any):

Click or tap here to enter text.

Part 5

2.4. Provide your views on the proposed revisions to **Part 5**, *Planning*. Please also share your views on whether the public interest issues identified in the underlying ISA projects are *relevant* to the ISA for LCE and, if so, whether they are addressed in a *proportionate* way.

(See Section I-E in the Explanatory Memorandum)

Overall response: **Support the proposed revisions (with no further comments)**

Detailed comments (if any):

Click or tap here to enter text.

Part 6

2.5. Provide your views on the proposed revisions to **Part 6**, *Risk Identification and Assessment*. Please also share your views on whether the public interest issues identified in the underlying ISA projects are *relevant* to the ISA for LCE and, if so, whether they are addressed in a *proportionate* way.

(See Section I-F in the Explanatory Memorandum)

1. Responses related to Presumption of ROMMs Due to Fraud in Revenue Recognition (Part 6.4)

Overall response: **Support the proposed revisions, with comments below**

Detailed comments (if any):

We support changing the work effort verb from "evaluate" to "determine" and requiring the auditor to take into account related fraud risk factors to align with the enhanced requirement in ISA 240 (Revised). We agree that the control environment may not be strong in an LCE, and that simple revenue streams are not inherently risk free, as revenue recognition can still involve judgements relating to conditions, timing, cut-off and classification.

We support the message in the proposed EEM that there are often circumstances in an audit of an LCE where the presumption of ROMMs due to fraud in revenue recognition may be rebutted. However, we do not consider the illustrative example is reflective of audits of LCEs. It may not provide sufficient assistance to auditors in exercising professional judgement and may not promote consistent application in practice.

Recommendation

We recommend enhancing the EEM by using a more realistic example that reflects the types of revenue streams and judgements commonly encountered in LCEs. The example should clearly illustrate the factors supporting rebuttal and the circumstances in which fraud risks are considered despite simple revenue streams.

For example:

> *"Because of the typical nature and circumstances of an LCE, including relevant qualitative characteristics, the entity's revenue recognition often may relate to a simple type of revenue or simple revenue transactions ~~(e.g. leasehold revenue from a single rental property)~~. This together with the auditor's consideration of fraud risk factors, and evaluating whether one or more fraud risk factors are present may affect the auditor's determination in accordance with paragraph 6.4.2.*

Depending on the circumstances, the auditor may conclude that fraud risk factors are not significant and, therefore, may rebut. For example: A charity is fully funded by a government contract to deliver health education to schools. Based on the risk assessment procedures performed, the auditor determined that services are delivered several months before year end, such that there was no significant opportunity to manipulate the cut off of revenue. The auditor also determined that the contract revenue is a fixed amount. There is no incentive for management to manipulate revenue as future contract renewals are based on the quality of service delivery not on revenue recognised in the prior period.

2. Other proposals in Part 6

Overall response: Support the proposed revisions, with comments below

Detailed comments (if any):

1) Technology to enable fraudulent activity (EEM paragraph 6.3.8)

The proposed EEM at 6.3.8 to address the ability to use technology to enable fraudulent activity is proportionate. However, the addition of the phrase "*in relation to the entity's process to prepare its financial statements*" narrows the focus to the financial statement preparation process. This suggests a year-end management override of controls opportunity rather than recognising that technology can create opportunities to commit fraud throughout the reporting period.

Recommendation

Amend the EEM to maintain the broader concept that technology may facilitate fraud on an ongoing basis, rather than the consideration to risks arising during the financial statement preparation.

2) Linkages to ISA 315

We have concerns regarding the assessment that enhancements made to ISA 570 to clarify linkages to ISA 315 are not necessary because of the structure and flow of ISA for LCE. We consider this places insufficient emphasis on going concern considerations when obtaining an understanding of the entity in section 6.3.

Recommendation

Include more references to going concern considerations when the auditor obtains an understanding of the entity to support the earlier identification of events and conditions that may affect the entity's ability to continue as a going concern.

We recommend incorporating going concern considerations from ISA 570 paragraph 12 into the EEM at section 6.3.4 .

For example:

"Understanding the entity's business model helps the auditor to understand the entity's objectives and strategy, and to understand the business risks the entity takes and faces Understanding the entity's business risks assists the auditor in identifying risks of material misstatement, since most business risks will eventually have financial consequences and, therefore, an effect on the financial statements and may be relevant to events or conditions that may cast significant doubt on the entity's ability to continue as a going concern.

Relevant industry factors include industry conditions such as the competitive environment, supplier and customer relationships, and technological developments that may have an effect on the entity's financing. Other external factors affecting the entity that the auditor ……"

Part 7

2.6. Provide your views on the proposed revisions to **Part 7**, *Responding to Assessed Risks of Material Misstatement*. Please also share your views on whether the public interest issues identified in the underlying ISA projects are *relevant* to the ISA for LCE and, if so, whether they are addressed in a *proportionate* way.

(See Section I-G in the Explanatory Memorandum)

1. Responses related to Going Concern Section (Part 7.4)

Overall response: **Support the proposed revisions, with comments below**

Detailed comments (if any):

1) Evaluation of management's assessment (paragraph 7.4.1)

We support the proposal to evaluate management's assessment of going concern as a proportionate response to the context and nature of an LCE. The EEM strikes an appropriate balance by recognising that management's assessment may be informal. We support the IAASB's decision not to limit the requirement to enquiry and discussion. Other audit procedures, such as inspection of documents e.g. budgets, provide evidence in practice, particularly given the close relationship between management and ownership that often exists in LCEs.

We also support retaining the extant illustration of how enquiry, discussion, and inspection may be applied, as it provides a useful example of how the requirement can be implemented in a scalable and proportionate manner.

We support the proposal that management's assessment cover a period of at least 12 months from the date the financial statements are approved. This aligns closely with current New Zealand requirements and practice.

2) Journal testing (paragraph 7.4.6.a(iA)

Public Interest Issue #13 **"**Uncertainty about how to select journal entries to test that has resulted in inconsistent application" has not been adequately addressed by the addition of proposed requirement paragraph 7.4.6.a(iA) on completeness of journal entries. While completeness is important, it does not provide sufficient guidance on how auditors identify and select journal entries for testing. Although some LCEs may process only a small number of journal entries, others may rely heavily on manual recording of transactions. Accordingly, guidance on selecting journal entries for testing remains relevant for many LCEs.

Recommendation

Include an Appendix based on the principles of Appendix 4 in ISA 240 (Revised), to provide proportionate guidance on selecting journal entries and other adjustments for testing in an LCE audit. The Appendix could highlight the relationship between the presence of fraud risk factors and

journal entries susceptible to unauthorized or inappropriate intervention or manipulation. Providing this guidance would support more consistent application while remaining proportionate to the nature and circumstances of an LCE.

For example:

"Additional Considerations the May Inform the Auditor When Selecting Journal Entries and Other Adjustments for Testing

The following considerations are of relevance when selecting journal entries and other adjustments for testing:

- *The presence of fraud risk factors, may assist the auditor to identify specific classes of journal entries and other adjustments for testing. These may include journal entries and other adjustments susceptible to unauthorised or inappropriate intervention or manipulation resulting from:*
    - *Pressures to comply with debt repayment or other debt covenant requirements*
    - *Opportunities, arising from the inappropriate segregation of duties, for any individual in the entity to conceal or perpetrate fraud in the normal course of that individual's duties*
    - *Opportunities arising from deficiencies in internal control*
    - *Opportunities arising from privileged access granted to individuals due to minimal staff*
- *Inappropriate journal entries or other adjustments often have unique identifying characteristics. Such characteristics may include entries:*
    - *Made to unrelated, unusual, or seldom-used accounts.*
    - *Made by individuals who typically do not make journal entries.*
    - *Recorded at the end of the period or as post-closing entries that have little or no explanation or description.*
    - *Made either before or during the preparation of the financial statements that do not have account numbers.*
    - *Containing round numbers or consistent ending numbers.*
    - *Applied to accounts that have not been reconciled on a timely basis or contain unreconciled differences.*

2. Other proposals in Part 7

Overall response: **Support the proposed revisions, with comments below**

Detailed comments (if any):

Reliance on controls reports for service organisations

The ISA for LCE recognises that a LCE may use a service organisation. However, the standard does not include any requirements that relate to using controls reports as audit evidence about the design, implementation, operating effectiveness of controls. The rationale for this approach was that reliance on these controls as audit evidence is not typical of LCEs.

Based on our recent engagement with stakeholders, auditors considering the ISA (NZ) for LCE explained that, in increasing circumstances, they do rely on controls reports as audit evidence when auditing LCEs.

Therefore, the XRB has proposed in New Zealand to enable auditors to use type 1 or type 2 control reports as evidence where appropriate. We have included requirements from ISA (NZ) 402, Audit Considerations Relating to an Entity Using a Service Organisation and essential explanatory material needed to support that outcome in a proportionate way for audits of LCEs.

We have received strong support for the proposals, which will be applicable for accounting periods beginning on or after 1 March 2026.

We recommend the IAASB pursue narrow scope amendments ahead of a post implementation review to consider the inclusion of provisions equivalent to the proposed New Zealand amendments, to address perceived barriers to adopting the standard.

Part 8

2.7. Provide your views on the proposed revisions to **Part 8**, *Concluding*. Please also share your views on whether the public interest issues identified in the underlying ISA projects are *relevant* to the ISA for LCE and, if so, whether they are addressed in a *proportionate* way.

(See Section I-H in the Explanatory Memorandum)

Overall response: **Support the proposed revisions (with no further comments)**

Detailed comments (if any):

Click or tap here to enter text.

Part 9

2.8. Provide your views on the proposed revisions to **Part 9,** *Forming an Opinion and Reporting*. Please also share your views on whether the public interest issues identified in the underlying ISA projects are *relevant* to the ISA for LCE and, if so, whether they are addressed in a *proportionate* way.

(See Section I-I in the Explanatory Memorandum)

Overall response: **Support the proposed revisions (with no further comments)**

Detailed comments (if any):

Click or tap here to enter text.

Part 10 and Appendices

2.9. Provide your views on the proposed revisions to **Part 10**, *Audits of Group Financial Statements* and **Appendices**. Please also share your views on whether the public interest issues identified in the underlying ISA projects are *relevant* to the ISA for LCE and, if so, whether they are addressed in a *proportionate* way.

Overall response: **Support the proposed revisions, with comments below**

Detailed comments (if any):

Appendix 3A Events or conditions that may cast significant doubt on the entity's ability to continue as a going concern

We support the inclusion of Appendix 3A, based on ISA 570 paragraph A7, as relevant to audits of an LCE. To enhance its proportionality, the financial examples could better reflect the nature and circumstances of an LCE. For example, owner-managers cease to take drawings or a salary, or the entity relying on funding from friends/family.

Other Matters

Maintenance of the ISA for LCE

3. Do you agree with the Maintenance Approach? Please also share your views relating to the frequency and timing of maintenance projects and how the approach could be improved, including, as applicable, how to achieve the appropriate balance between the desire for stability between different versions of the standard and keeping the standard aligned with the core requirements and concepts of the ISAs.

(See Section I-J, paragraphs 72–76 in the Explanatory Memorandum)

Overall response: **Agree, with comments below**

Detailed comments (if any):

Maintenance period

We support the current maintenance approach to maintaining the ISA for LCE, under which revisions are considered as corresponding revisions to the ISAs are substantially finalized. This approach helps to keep the ISA for LCE current and, to the greatest extent possible, aligned with the full ISAs.

A key consideration for the XRB in deciding to adopt the ISA for LCE in New Zealand was the IAASB's commitment to maintaining the standard and preserving its consistency with the ISAs. The current exposure draft demonstrates the value of that approach. It enables settled changes to the ISAs to be considered and adapted proportionately for the ISA for LCE, while minimizing the period in which the two sets of standards differ.

For this reason, we strongly favour retaining the current maintenance approach rather than moving to a fixed periodic cycle, such as a five-year update. A periodic approach could result in differences remaining in place for an extended period, where the underlying requirements in the ISAs have already changed practice.

In our view, differences between the ISA for LCE and the full ISAs should be minimized where appropriate. Keeping the ISA for LCE current and closely aligned with developments in the ISAs supports confidence in the standard and reinforces that both frameworks are designed to support the performance of high-quality audits that result in reasonable assurance.

Effective Date

4.	The IAASB believes that an appropriate implementation period would be approximately 18 months after the expected date of approval of the proposed revised standard. Do you agree that this will provide a sufficient period to support effective implementation of the proposed revisions to the standard? If not, what do you propose and why? *(See Section I-J, paragraphs 77–78 in the Explanatory Memorandum)*

Overall response: **Agree (with no further comments)**

Detailed comments (if any):

Translations

5.	Recognizing that many respondents may intend to translate the final standard for adoption in their own environments, have you identified any potential translation challenges or issues? If so, please describe the issue identified and clearly indicate the specific paragraph numbers of any requirements, essential explanatory material, or appendices to which your comments relate.

Overall response: **No response**

Detailed comments (if any):

Click or tap here to enter text.

This document was prepared by the Staff of the International Auditing and Assurance Standards Board (IAASB).

The objective of the IAASB is to serve the public interest by setting high-quality auditing, assurance, and other related services standards and by facilitating the convergence of international and national auditing and assurance standards, thereby enhancing the quality and consistency of practice throughout the world and strengthening public confidence in the global auditing and assurance profession.

The IAASB develops auditing and assurance standards and guidance under a shared standard-setting process involving the Public Interest Oversight Board, which oversees the activities of the IAASB, and the IAASB and IESBA Stakeholder Advisory Council, which provides public interest input into the development of the standards and guidance.

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