

Board Meeting Agenda

9 February 2022
9:15 am to 5.00 pm

Apologies:

Est. Time	Item	Topic	Objective		Page
A: NON-PUBLIC SESSION					
B: PUBLIC SESSION					
9.20 am	1	<u>Board Management</u>			
	1.1	Action list	Note	Paper	
	1.2	Chair's report	Note	Verbal	
	1.3	AUASB Update	Note	Verbal	
	1.4	Update from CE	Note	Verbal	
	1.5	IAASB update	Note	Paper	
10.00 am	2	<u>PIE definition</u>			<i>Misha</i>
	2.1	Board meeting summary paper	Note	Paper	
	2.2	Issues Paper	Consider	Paper	
	2.3	IESBA approved text	Note	Paper	
11.15 am	<i>Morning tea</i>				
11.30 am	3	<u>Update from NZASB Chair</u>			<i>Carolyn and Anthony</i>
	3.1	Auditor Remuneration (NZASB Dec paper)	Note	Paper	
	3.2	Definition of Public accountability (NZASB Dec paper)	Note	Paper	
12.15 noon	4	<u>Fees</u>			<i>Sharon</i>
	4.1	Board meeting summary paper	Note	Paper	
	4.2	NZ Fees Amendments (For approval)	Consider	Paper	
	4.3	Signing memorandum	Approve	Paper	
	4.4	NZ Fees Amendments (tracked from IESBA text for information)	Approve	Paper	
1: 15pm	<i>Lunch</i>				
2:00 pm	5	<u>ED Conforming amendments to NZ standards</u>			<i>Vivian</i>
	5.1	Board meeting summary paper	Note	Paper	
	5.2	Invitation to comment and Exposure draft	Approve	Paper	
2.20 pm	6	<u>Service Performance Information</u>			<i>Lisa</i>
	6.1	Board meeting summary paper	Note	Paper	
2.35 pm	7	<u>Modified audit reports</u>			<i>Peyman</i>
	7.1	Application of the Modified Audit Reports Policy	Note	Paper	

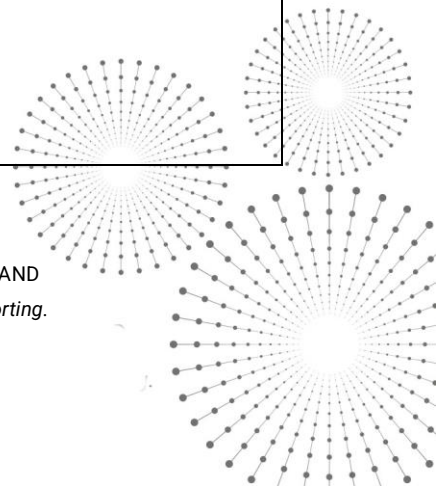
Est. Time	Item	Topic	Objective		Page
3.50 pm	8	<u>Environmental scanning</u>			<i>Peyman</i>
	8.1	International Update	Note	Paper	
	8.2	Domestic Update	Note	Paper	
3.05 pm	<i>Afternoon tea</i>				
C: NON-PUBLIC SESSION					
4.50 pm		<u>Closing</u>			

Next meeting: 7 April 2022, In person (TBC)
 Joint meeting 6 April 2022

NZAuASB Action list

Following December 2021 meeting

Meeting Arose	Board Action	Target Meeting	Status
Ongoing – on action plan	Follow up with RBNZ regarding auditor reporting	April 2022	Reserve Bank is consulting on proposed changes: https://www.rbnz.govt.nz/regulation-and-supervision/banks/consultations-and-policy-initiatives/active-policy-development/assurance-reports-on-bank-disclosure-statements
December 2018	Reach out to CA ANZ re international activities on SMP/SME audits	Ongoing	Refer submission on Less Complex Entities.
February 2021	To follow up with the OAG on the adoption of NZ AS 1 in the public sector when they are ready to do so	Ongoing	Verbal update
April 2021 and December 2021	Need to promote awareness and use of the EER guidance.	Ongoing	Planning underway to promote in conjunction with consultation on the metrics and targets and related assurance aspects in March 2022.
December 2021	Update on progress on GHG assurance project	Ongoing	GHG advisory panel established. Second meeting scheduled 11 February to consider comparison of ISO 14064 and ISAE (NZ) 3410 Climate and assurance staff collaborating on ongoing basis
December 2021	Continue to work with the APESB to identify possible Trans-Tasman solutions. Engage with the IRD and FMA to identify evidence of if, and where, the provision of tax advisory and tax planning services has impacted on auditor independence.	April 2022	Verbal update. Actions requested by the Board in December will be actioned through February.



DATE: 24 January 2022

TO: External Reporting Board
New Zealand Auditing and Assurance Standards Board (NZAuASB)

FROM: Lyn Provost, IAASB member
Sylvia van Dyk, Technical advisor

SUBJECT: Report on IAASB December meeting

Introduction

1. This report provides an overview of the International Auditing and Assurance Standards Board (IAASB) Board meeting held on 6-10 December and 13-14 December 2021.
2. Key topics were the approval of the:
 - Group audit standard, ISA 600(Revised), and conforming amendments.
 - IAASB work plan for 2022-2023; and
 - Fraud project plan.
3. The full December meeting papers can be accessed [here](#).

Group Audits

4. The Board unanimously approved ISA 600 (Revised) and the consequential amendments to other ISAs. There were no votes for re-exposure. The effective date is for audits of financial statements for periods beginning on or after 15 December 2023.
5. The standard will be issued after approval by the Public Interest Oversight Board, which is anticipated in early April 2022, however the final text is available now on the IAASB's website.

Work Plan 2022-2023

6. The Board unanimously approved the Work Plan for 2022-2023.
7. In addition to the completion of current standard setting projects¹ and the expectation of one or two new projects commencing during this Work Plan, the Work Plan includes a strong commitment to do more work to enhance the assurance of sustainability/ESG reporting. Information gathering and research activities on this topic, using dedicated staff resources, will commence in January 2022.

¹ LCE standard, CUSP project, audit evidence, fraud, going concern, PIE project

8. The IAASB recognises that initial consultations on non-financial assurance could lead to:
 - developing new subject matter specific standards that build on and supplement ISAE 3000 (Revised)²;
 - targeted enhancements to ISAE 3000 (Revised), as necessary or
 - other related actions that are necessary in the public interest, for example revising the existing guidance³ or developing new guidance.
9. In 2023 (subject to the targeted completion of the projects underway at the start of 2022, the IAASB will determine one or two new project(s) or initiative(s) to commence in accordance with the criteria as set out in the Framework.
10. The IAASB's Work Plan for 2022-2023, *A Public Interest Focus in Uncertain Times* can be accessed [here](#).

Fraud project plan

11. The Board discussed and approved the Fraud project proposal to revise ISA 240⁴ and the conforming and consequential amendments to other relevant ISAs.
12. The IAASB recognises in the project proposal the importance of the role of its standards in the financial reporting ecosystem, and the need to clarify the role of the auditor. The project will therefore be focussed on specific standard setting actions to enable consistent and approved auditor behaviour.
13. Key objectives of the project are to clarify the auditor's responsibilities and enhance the robustness of the auditor's required procedures and reporting on fraud in an audit of financial statements. This will include enhanced risk assessment procedures, reinforcement of the auditor's professional scepticism needed in gathering evidence, challenging assumptions, and developing conclusions and ensuring transparent rigorous and balanced reporting.
14. The Fraud Task Force, which Lyn chairs, intends to discuss, and bring specific proposed actions to the Board for their input at the March 2022 IAASB meeting, addressing key issues identified about the role and responsibilities of the auditor, risk identification and assessment and transparency.

Future meetings

15. The next IAASB video conference meetings are scheduled for 8 February 2022, and 14-18 March 2022.

² ISAE 3000(Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information*

³ To help stakeholders more readily identify and understand available guidance for assurance of sustainability/ESG reporting, the IAASB renamed the guidance released in April 2021 to: [Non-Authoritative Guidance on Applying ISAE 3000 \(Revised\) to Sustainability and Other Extended External Reporting Assurance Engagements](#)

⁴ ISA 240, *The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements*

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	2.1
Meeting date:	9 February 2022
Subject:	Public interest entity definition
Date:	26 January 2022
Prepared by:	Misha Pieters

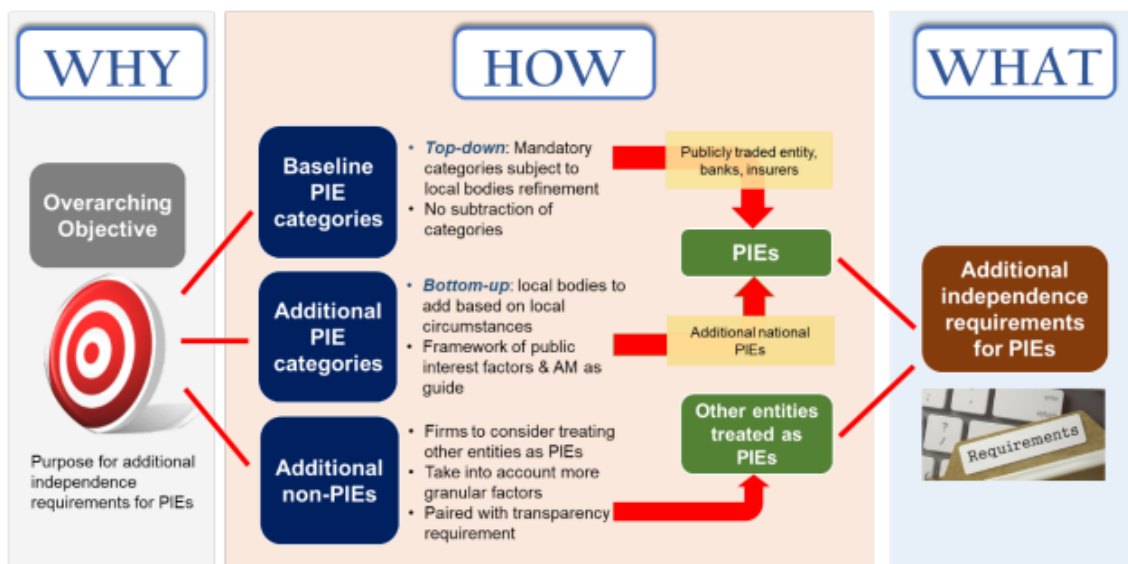
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Agenda Item Objectives

1. For the Board to AGREE if and how the New Zealand approach to defining a public interest entity (PIE) should be amended considering the revised International Ethics Standards Board for Accountants (IESBA) PIE approach.

Background

2. The IESBA approved a revised approach to defining a “listed entity” and a “public interest entity” at its December 2021 meeting. The final standard is expected to be issued in March 2022 following approval by the Public Interest Oversight Board (PIOB). The revised standard will be effective from December 2024.
3. The amendments were discussed by the NZAuASB ahead of the national standard setters (NSS) meeting (at the October NZAuASB Meeting) and in summary:
 - a. Introduce an overarching objective for additional requirements to enhance confidence in the audit of financial statements of PIEs.
 - b. Provide guidance on factors to consider when determining the level of public interest in the “financial condition” of an entity, noting that this may be wider than the public interest in the financial statements.
 - c. Broaden the definition of a PIE to include additional categories of entity (which include deposit takers and insurers) but has not included collective investment schemes and post-employment benefit schemes within the global category list.
 - d. Replaces “listed entity” with the term “publicly traded entity”.
 - e. Encourages firms to determine if additional entities should be treated as PIEs for independence purposes
 - f. Requires that when a firm has applied the PIE independence requirements, the firm shall publicly disclose that fact in a manner deemed appropriate.
4. In finalising the global PIE approach, the IESBA recognises the important role of NSS and local regulations to determine which entities are to be treated as a PIE.
5. The following diagram extracted from the December IESBA papers sums up the revisions:



6. During the NSS meeting, we (together with Australia) highlighted issues that arise when we, as the NSS, add categories of entities to the global list. The IESBA has strengthened the language in paragraph 400.18 A2 to encourage local bodies to add new categories and include examples of potential additional categories such as pension funds and collective investment vehicles as relevant.
7. When commenting on the IESBA's exposure draft, the NZAuASB agreed that it would determine if and how the New Zealand definition of a PIE should be amended once the IESBA approach was finalised, and to issue a New Zealand specific exposure draft (ED).
8. The NZAuASB is now asked to reflect on the Bottom-up approach to agree which entities should be included as NZ PIEs based on local circumstances to enable the development of an ED.
9. The importance of the PIE definition has been noted throughout the Board's project on non-assurance services (NAS). Practitioners continue to express concern that the PIE definition is overly onerous in the New Zealand. The key independence requirements where there are more stringent requirements for PIEs include: long association and auditor rotation requirements (section 540), non-assurance services (section 600), fees (section 410), employment with an audit client (section 524). A summary of the [extant prohibitions applicable to audit of PIEs](#) is available on the IESBA website. Staff also prepared a [summary](#) of proposed prohibitions to the provision of NAS to a PIE client.
10. The International Auditing and Assurance Standards Board (IAASB) continues its work to consider the implications of the revised PIE definition on the International Standards on Auditing (ISAs), prioritising the matter of whether the requirement for a firm to publicly disclose when the firm has applied the PIE independence requirements should be included within the auditor's report. We will continue to monitor discussions by the IAASB.

Matters to Consider

11. **Board members are asked for views on which entities or combinations of entities should be NZ PIEs and why:**
 - a. **All FMC HLPAs, including kiwisaver schemes and other collective investment schemes determined to have HLPAs by the FMA (refer to the appendix for details).**
 - b. **Large reporting entities captured by XRB A1 i.e., large Public Benefit Entities (large public sector and large not-for-profit entities) and large for-profit public sector entities.**

- c. **Large entities considering the “large” criteria established by the Climate legislation.**
- d. **All FMC entities regulated by the FMA (including those that have lower levels of public accountability).**
- e. **Any other entity that meets the IASB’s definition of public accountability.**
- f. **Private entities with large numbers of stakeholders (other than investors).**
- g. **Other (please specify).**

12. Staff recommendations are included in the issues paper at agenda item 2.2.

Next steps

- 13. Following the NZAuASB discussions, input will be sought from the XRB board given the strategic importance and possible need for alignment across XRB standards. We plan for a discussion with the NZASB at the joint April meeting on this topic and may plan to seek input from XRAP at its March meeting.
- 14. We plan to bring a New Zealand exposure draft for approval by the NZAuASB to the June 2022 meeting, and to issue the exposure draft before the end of June 2022. (This may be earlier, dependent on when we are able to get the final and approved international standard following PIOB approval from IFAC).

Material Presented

Agenda item 2.1	Board Meeting Summary Paper
Agenda item 2.2	Issues paper
Agenda item 2.3	IESBA approved text (Pending PIOB approval)

Appendix: Current New Zealand PIE definition

“[NZ] Public interest entity – Any entity that meets the Tier 1 criteria in accordance with XRB A1 and is not eligible to report in accordance with the accounting requirements of another tier.”

The NZ definition includes:

FMC entities considered to have a higher level of public accountability (regulated and determined by the FMA) including:

- Equity issuers who make a regulated offer (and have more than 50 shareholders)
- Debt issuers who make a regulated offer
- Licensed derivative issuers
- Licensed Managed Investment Scheme (MIS) managers (for the financial statements of the MIS they manage)
- Listed issuers
- Recipients of money from a conduit issuer
- Registered banks
- Licensed insurers
- Credit unions

Building societies (<https://www.fma.govt.nz/compliance/exemptions/financial-reporting-exemption-information/#accountability>)

Large for-profit public sector entities

Large NFPs

Large public sector entities

Entities that have public accountability

The NZ PIE definition currently excludes FMC entities designated as having lower levels of public accountability (which includes):

- Licensed MIS managers (for the manager's own financial statements)
- Licensed providers of discretionary investment management schemes (DIMS) (under the FMC Act)
- Licensed peer-to-peer lending service providers
- Licensed crowd funding service providers
- Licensed supervisors
- Licensed market operators (domestic)

Public interest entity (PIE) definition

Objective of this memo

1. **The NZAuASB is asked to agree if and how the NZ approach to PIEs should be amended, considering the revised IESBA PIE approach, reflecting on the role of national standard setters (NSS) to determine a “bottom-up” approach based on local circumstances.**

Staff recommendation

2. To be consistent with the factors provided in the IESBA Code to assist NSS in setting the local PIE definition, staff recommendation is that the following entities¹ should be added to the revised IESBA’s “top down” categories to be included as NZ PIEs in PES 1:
 - a. FMC reporting entities considered to have higher level of public accountability (FMC HLPAs);
 - b. Large for-profit public sector entities; and
 - c. Large public benefit entities (PBE).
3. This approach would result in most, but not all, reporting entities that are required to report using the tier 1 accounting requirements continuing to be classified as NZ PIEs in PES 1.
4. The tier 1 reporting entities not included in the staff recommendation above would be those entities that are considered to have ‘public accountability’ as defined XRB A1 (based on the IASB definition²) that are not FMC reporting entities.

¹ The terms used to define these entities would be based on the definitions used in XRB A1 *Application of the Accounting Standards Framework* to establish the criteria for Tier 1 reporting requirements.

- a. ‘FMC HLPAs’ is defined by the Financial Markets Conduct Act 2013 (para. 9 – 10 of XRB A1). (refer to appendix of the board meeting summary paper for more information)
- b. ‘Public benefit entities’ (PBEs) are defined as reporting entities whose primary objective is to provide goods or services for community or social benefit and where any equity has been provided with a view to supporting that primary objective rather than for a financial return to equity holders (para. 6 of XRB A1).
- c. ‘For-profit public sector entities’ are defined as reporting entities that are not public benefit entities and are public entities as defined in the Public Audit Act 2001 (para. 6 of XRB A1)
- d. A for-profit public sector entity is defined as ‘large’ if it has total expenses over \$30 million (para. 18 of XRB A1).
- e. A PBE is defined as ‘large’ if it has total expenses over \$30 million (para 38 of XRB A1).

² In accordance with the IASB definition, an entity has public accountability if (i) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or (ii) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion).

Overview of Key matter for consideration by the NZAuASB

5. The following category of entity is captured by the IESBA’s “top-down” approach:

R400.17 For the purposes of this Part, a firm shall treat an entity as a public interest entity when it falls within any of the following categories:

- (a) A publicly traded entity;
- (b) An entity one of whose main functions is to take deposits from the public;
- (c) An entity one of whose main functions is to provide insurance to the public; or
- (d) An entity specified as such by law, regulation or professional standards to meet the purpose described in paragraph 400.10.

6. The following text anticipates that NSS will refine these categories using the “bottom-up” approach:

400.18 A2 Paragraph R400.17 (d) anticipates that those bodies responsible for setting ethics standards for professional accountants will add categories of public interest entities to meet the purpose described in paragraph 400.10, taking into account factors such as those set out in paragraph 400.9. Depending on the facts and circumstances in a specific jurisdiction, such categories could include:

- Pension funds.
- Collective investment vehicles.
- Private entities with large numbers of stakeholders (other than investors).
- Not-for-profit organizations or governmental entities.
- Public utilities.

7. In refining the NZ “bottom up” approach, based on local conditions, to determine if and how the extant NZ PIE definition should be amended going forward, Board members are asked to agree which entities meet the factors listed by the IESBA in evaluating the extent of public interest in the *financial condition of an entity* in the New Zealand context and should be caught by the NZ PIE definition. Those factors include:
- The nature of the business or activities, such as taking on financial obligations to the public as part of the entity’s primary business.
 - Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations.
 - Size of the entity.
 - The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure.
 - Number and nature of stakeholders including investors, customers, creditors and employees.
 - The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.

8. Options explored and staff recommendations include:

Key Factor considered	Option and Staff recommendation
<p>Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its <i>financial obligations</i></p>	<p>Staff recommend that all FMC reporting entities considered to have a higher level of public accountability (FMC HLPAs) should continue to be classified as NZ PIEs. The FMA determines which FMC entities have HLPAs.</p> <p><i>(Alternative option: All FMC reporting entities including those considered to have lower levels of public accountability)</i></p> <p>Given this category includes MIS managers (for their own financial statements), providers of DIMs and supervisors, a category for which the IESBA notes that further research is needed before determining to include as PIEs and that few other jurisdictions have included as PIEs, staff do not recommend broadening the extant NZ definition of a PIE to include all FMC reporting entities.</p>
<p>Size of the entity</p>	<p><u>Large Public Benefit Entities</u></p> <p>Staff recommend continuing to include large public sector and large not-for profit entities as New Zealand PIEs.</p> <p>Large is defined in s45 of Financial Reporting Act 2013 (FRA). XRB A1 had aligned with the meaning of large as established in law to set out who should report using the tier 1 reporting requirements. Historically and for simplicity, the XRB has avoided creating a separate category or redefining size criteria for the purpose of defining PIEs. With a focus on size as a public interest factor we recommend continuing to align with the size criteria referenced in XRB A1.</p> <p>The Auditor General's ethical requirements treat all public sector entities as PIEs, with a few exceptions. (Refer to appendix 3).</p> <p><u>(Alternative considerations: Large for-profit entities)</u></p> <p>Large companies have statutory reporting requirements, but may be able to opt out of an audit under s206(2) of the FRA. XRB A1 does not include size criteria for determining which for-profit entities are tier 1 reporting entities, other than for large for-profit <i>public sector</i> entities.</p> <p>Large (as defined for financial reporting purposes) for-profit entities that are not FMC reporting entities with higher levels of public accountability are effectively large privately held for-profit entities, who may opt out of audit under the FRA. Staff do not recommend that these entities should be included as PIEs by the XRB's Code. Firms may consider such entities to be a PIE based on the factors listed in paragraph 400.19 A1 of the revised IESBA Code.</p>

	<p>An alternative definition of “large” is established in the climate legislation to identify who has to prepare a climate statement (in some ways this creates a sub-set of FMC HLPAs (based on size criteria)). Staff do not consider that the objective of the climate legislation size criteria aligns with the objective of the PIE requirements and so does not recommend alignment between defining PIEs with reference to the definition of “large” as defined in the climate legislation. We consider that these entities should be NZ PIEs but that they be captured by the category of FMC HLPAs.</p>
<p>Number and nature of stakeholders including investors, customers, creditors and employees.</p>	<p>Alternative consideration : Para 400.18 A2 of the revised Code identifies private entities with large numbers of stakeholders (other than investors) as an example of an additional category that NSS might include.</p> <p>Large as defined in the FRA and climate legislations has no relation to the number of stakeholders. There is no defined way in legislation or in XRB A1 to capture private entities with a large number of stakeholders. Staff do not recommend adding this category unless it is clear which entities would be caught in the New Zealand context and how they meet the public interest factors. Firms will be encouraged to consider such entities to be a PIE based on the factors listed in paragraph 400.19 A1 in agenda 2.3.</p> <p>Historically firms have been encouraged to determine whether to treat additional entities as PIEs because they have a large number and wide range of stakeholders.</p>
<p>The extant NZ PIE definition covers all tier 1 reporting entities</p> <p>“Public accountability” is not a factor taken into consideration by the IESBA</p>	<p>Alternative option: Entities that are neither FMC HLPAs, nor “large” as captured by XRB A1, but might meet the IASB’s definition of public accountability</p> <p>Tier 1 entities include those with public accountability. This conceptually includes entities that are neither FMC HLPAs nor large, but that do have public accountability under the IASB’s definition. We do not have a complete picture of the number of or types of entities that fall into this category.</p> <p>Staff do not recommend that these entities should be classified as PIEs. While uncertainty persists as to whether and which entities would in fact be categorised as tier 1 entities based solely on the IASB’s definition of public accountability, it may be clearer to move away from a reference to alignment with the tier 1 reporting requirements and rather to focus on FMC HLPAs and the size criteria from XRB A1. (Refer to section on Uncertainty about whether ‘fund managers’ have public accountability)</p> <p>This would move away from aligning NZ public interest entities with all tier 1 reporting entities, however would continue to capture most of the same entities.</p>

	This is a strategic matter to be agreed in conjunction with the XRB Board and the NZASB.
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9. Staff recommend that the NZAuASB should adopt the IESBA revised wording and then propose to add a NZ paragraph requiring firms to treat the agreed type(s) of entities as PIEs in line with PES 1 requirements. For example:

NZ R400. xx (to agree location) For the purposes of this Part, a firm shall treat *FMC reporting entities considered to have higher levels of public accountability, large public benefit entities and large for-profit public sector entities as defined in XRB A1 for other agreed combination of entities* as a public interest entity.
10. We recommend that the NZ requirement be positioned either after [R400.17](#) or after [400.18 A2](#) of the revised IESBA text.
11. **Board members are asked to provide their views on which entities, or combinations of entities should be NZ PIEs and why:**
 - a. **All FMC HPLA, including kiwisaver schemes and other collective investment schemes determined to have HPLA by the FMA.**
 - b. **Large reporting entities captured by XRB A1 i.e., large Public Benefit Entities (large public sector and large not-for-profit entities) and large for-profit public sector entities.**
 - c. **Large entities considering the “large” criteria established by the Climate legislation.**
 - d. **All FMC entities regulated by the FMA (including those that have lower levels of public accountability).**
 - e. **Any other entity that meets the IASB’s definition of public accountability.**
 - f. **Private entities with large numbers of stakeholders (other than investors)**
 - g. **Other (please specify)**
12. The remainder of this issues paper has the following sections to provide background and context around:
 - a. The IESBA’s amended approach to defining PIEs
 - b. Key matter raised in finalising the international text
 - c. The extant NZ approach
 - d. What entities are required to report using the tier 1 reporting requirements
 - e. Uncertainty about whether ‘fund managers’ have public accountability
 - f. Comparison with extant Australia PIE definition
 - g. Appendix 1: South African approach to PIEs
 - h. Appendix 2: Singapore approach to PIEs
 - i. Appendix 3: Office of the Auditor General approach to PIEs

IESBA's amended approach to defining PIEs

13. As highlighted to the NZAuASB in October, the IESBA's revised PIE approach now includes additional categories of entities as PIEs. The revision brings the IESBA's approach closer to the current New Zealand approach, however the XRB approach remains broader in some ways.
14. In finalising the international approach, the IESBA noted that it cannot include all categories in a global Code and therefore national standard setters and regulators **are anticipated to add** categories of PIEs to meet the purpose described in revised paragraph 400.10 of the Code. Firms also have their own role to play to identify an audit client as a PIE.
15. Extracts from the IESBA approved PIE text states that:

400.8	Some of the requirements and application material set out in this Part are applicable only to the audit of financial statements of public interest entities, reflecting significant public interest in the financial condition of these entities due to the potential impact of their financial well-being on stakeholders.
...	
400.10	Stakeholders have heightened expectations regarding the independence of a firm performing an audit engagement for a public interest entity because of the significance of the public interest in the financial condition of the entity. The purpose of the requirements and application material for public interest entities as described in paragraph 400.8 is to meet these expectations, thereby enhancing stakeholders' confidence in the entity's financial statements that can be used when assessing the entity's financial condition.

Key matter raised in finalising the international text

16. The IESBA agreed not to include pension schemes and collective investment vehicles (CIVs) within the list of PIEs in R400.17 as exposed. The PIOB had raised concern that removal of these entities is inconsistent with the qualitative characteristics of a PIE as set out in the list of factors in proposed paragraph 400.9.
17. The IESBA acknowledges that there are post-employment benefits (PEBs) and CIVs that would likely be considered as PIEs in many jurisdictions, taking into consideration the list of factors set out in paragraph 400.9. Equally, there are large numbers that would not. E.g., a number of generally smaller CIVs such as those that are used for tax purposes (for example in the UK and France) and smaller pension funds that are not likely to draw significant public interest. The issue is what is the most appropriate way of capturing PEBs and CIVs which would objectively be regarded as PIEs through the IESBA's framework that are not already captured within the new term "publicly traded entity", i.e., whether these categories should be included in a top-down list and automatically adopted subject to refinement by local bodies or whether they should be added to the bottom-up list by those local bodies.
18. During outreach with a number of jurisdictions, IESBA identified the following:
 - All jurisdictions have included listed entity or equivalent entities as PIEs.
 - Just under 90% of jurisdictions have also included deposit-taking institutions and insurance companies in their local definitions.
 - Around 60% have included at least some pension funds and approximately 35% have included CIVs in local definitions. Some jurisdictions have included fund managers/trustees, investment companies and asset managers as PIEs. Jurisdictions have not generally included other post-employment benefit plans such as medical insurance.

19. The reasons for *not* including PEBs and CIVs as PIEs may vary from jurisdiction to jurisdiction. For instance:
- In the US, the Department of Labour is responsible for regulating private retirement plans and conducts inspections and releases studies on its findings. There is little evidence for additional independence requirements for certain segments of the retirement plans that would make these plans more expensive and could result in some employers abandoning the plans altogether.
 - In Singapore, whilst the local PIE definition has included a range of financial institutions, it has not included pension funds. As the national pension scheme, is a government-operated scheme, operating under the Ministry of Manpower of the Singapore Government, there is no need to treat it as a PIE.
 - In France, the Ministries of Justice and Finance will only adopt the definition of PIE in the EU Directive and it is not possible for the French accountancy organisations to add their own definition as only the legal definition can be enforced.
 - In its comment letter in response to the PIE ED, the Institute of Chartered Accountants in England and Wales pointed out that in jurisdictions where the pension scheme accounts only show the scheme's assets (and not its liabilities) and are therefore effectively stewardship accounts, rather than indicating the financial condition of the scheme, the local regulator may determine that there is no public interest in the scheme accounts.
20. From the IESBA's perspective, a key risk of including PEBs and CIVs in the mandatory top-down list is that local bodies (a) do not meet the IESBA's expectation that they refine the definition in a timely manner, (b) do no refinement at all, or (c) remove these categories entirely from their local definitions, undermining the whole essence of a mandatory list.
21. The IESBA discussed that further research regarding PEBs and CIVs should be conducted in conjunction with more holistic research on the role of trustees, managers, and advisors. E.g., trustees and managers generally have fiduciary duties to their clients for the funds they govern or manage, but they are not caught as related entities under the Code.
22. The IESBA considered that the risk of local bodies not properly considering inclusion of PEBs and CIVs as PIEs in their local definitions may be managed by:
- Prominently highlighting in application material these categories as being examples that local bodies could add to their definitions.
 - Providing implementation support to the relevant local bodies.
 - Conducting the necessary post-implementation review (PIR) and updates from NSS to determine if further action is required by IESBA.

The extant NZ approach

23. The NZ definition of a PIE currently includes entities that are required to report using tier 1 reporting requirements (but excludes those that can opt down). The extant NZ definition is comparable to the Australian definition (refer below) but is more prescriptive for the public and not-for-profit sectors, with size thresholds established in XRB A1 *Application of the Accounting Standards Framework* and draws on with the IASB's definition of public accountability.

24. Historically, and based on previous text from the international Code, the XRB considered it appropriate that entities that can only report using tier 1 financial reporting requirements should also be regarded as audited under the most rigorous and stringent rules, wearing “the full badge of honour”. The NZAuASB considered that the benefits of extending the definition of a PIE more widely exceeded the costs of doing so to promote audit quality in New Zealand, and promoting consistency (without creating a new definition) was considered appropriate. The rationale for the extant approach of aligning with the tier 1 reporting entities under XRB’s reporting framework included:
- a. The XRB’s reporting framework requires all FMC HLPAs as well as other entities that meet the IASB’s definition of public accountability to report using the “golden standard of reporting”. The assurance requirements recognised that public accountability by requiring auditors to apply the PIE independence requirements.
 - b. A similar logic was applied to large Public Benefit Entities.
 - c. A need for consistency and simplicity. There was a preference not to add a third definition, or to create sub-levels within the framework.
25. The indicative extant PIE population in New Zealand is summarised as follows (there may be others and there may be some overlap, the objective of this table is to be indicative only):

For Profit		Not-for-profit	Public sector³
<i>Listed (debt and equity)</i>	<i>Approximately 170</i>	<i>Approximately 104 tier 1 charities (for the group)</i>	<i>Approximately 260 large tier 1 PBEs. Some public sector entities are FMC reporting entities.</i>
<i>Banks, insurers, credit unions</i>	<i>Approximately 170</i>		
<i>Other issuers</i>	<i>Approximately 300</i>		
<i>Financial statements of managed investment schemes</i>	<i>Approximately 700-1,000</i>		
<i>Other⁴</i>	<i>Approximately 600</i>		
Total	2,000 - 2,500	104	260

26. The revised IESBA’s approach to PIEs would include publicly traded entities (revised from listed entities⁵), banks and insurers, and the IESBA explicitly states that taking into account the factors in 400.9 adding categories such as pension funds, CIVs, private entities with large numbers of stakeholders (other than investors), Not-for-profit organizations or governmental entities or Public utilities is anticipated at a local level.
27. This table indicates that the extant NZ PIE definition may continue to mandate many entities that may not immediately fall within the international definition, especially financial statements of managed investment schemes. As highlighted, this is the category that caused the biggest issue on exposure by the IESBA and which have been excluded from the revised international definition with the expectation that NSS would add as appropriate for their

³ The Auditor-General’s independence requirements apply to all public entities and to all work carried out by, or on behalf of, the Auditor-General. In practice, this means that the requirements in PES 1 that apply to “public interest entities” shall be applied to all public entities, unless the Auditor-General requires a different standard to be applied. The Auditor-General has two exceptions to this, with respect to partner rotation requirements (section 540) and accounting and bookkeeping services (subsection 601).

⁴ It is unclear exactly what entities fall within this category, but as these are considered to have HLPAs by the FMA, are likely to be covered by the IESBA factors.

⁵ In New Zealand, we are aware of an entity that is listed but is not publicly tradeable. This entity is a FMC HLPAs.

jurisdiction, bearing in mind the factors described in the revised text for evaluating the extent of public interest in the financial condition of an entity.

28. Staff recommend that, based on the “bottom-up” factors listed by the IESBA in evaluating the extent of public interest in the financial condition of an entity in the New Zealand context, FMC HLPAs would meet these factors.
29. We also consider that entities that are large (as defined in XRB A1) also meet these factors.
30. Practitioners have raised concern that the XRB’s PIE definition is capturing too many entities. This concern has been exacerbated in recent times given more stringent rotation requirements for PIEs, new requirements for objectivity of the engagement quality reviewer and the latest prohibitions on the provision of non-assurance services. We have not heard significant comments from other stakeholder groups on this issue.
31. To consider what specific type of entities might be beyond the new and updated “factors” now included by the IESBA, we consider whether there are other options for adjusting the NZ PIE definition. These options included looking at various size criteria and also exploring which entities are currently caught due to having “public accountability”, rather than because of their size or how they are regulated.
32. Since the PIE definition was developed in NZ, there is a new category of reporting entity and “large” has been defined in a different way in the climate legislation (i.e., large listed entities (large meaning with a market capitalisation of more than \$60 million); large registered banks, licensed insurers, credit unions, building societies, and managers of investment schemes (large meaning with more than \$1 billion in assets); and some Crown financial institutions (via letters of expectation). Staff consider that these size criteria do not align with objective of the PIE requirements noting that the PIE requirements are not included in Part 4B of the Code (i.e., the independence standards for assurance engagements other than audit or reviews of financial statements).
33. In the past, the Office of the Auditor-General has made various comments with respect to the NZ PIE definition, on the one hand saying it is too broad:

“We understand that the definition of a “public interest entity” in New Zealand was developed in the context of financial reporting. That definition was then applied to the independence provisions of the Code of Ethics in circumstances where the definition was seen to be “proportionate” to the threat to independence. In our opinion, the NZAuASB needs to make a similar assessment on the application of the proposed requirements to “public interest entities”. We think a proportionate response is to apply the requirements to “FMC reporting entities considered to have a higher level of public accountability”.⁶

but on the other hand, encouraging the NZAuASB to align independence requirements for all entities:

“In our view, assurance practitioners and any members of the public who choose to read the Code would be better served by a Code that ...applied a single standard of independence for all entities and all assurance engagements....

⁶ The Office of the Auditor-General’s response to the proposed amendments addressing the long association of personnel with an assurance client (July 2017).

The Code applies different standards of independence based on whether the assurance engagement relates to the audit or review of financial statements of public interest entities or non-public interest entities, or other assurance.... We do not support that assumption.”⁷

What entities are required to report using the tier 1 reporting requirements

For-profit entities

34. A for-profit entity is required to report in accordance with Tier 1 For-Profit Accounting Requirements (i.e., full NZ IFRS) if it:
- (a) (i) has public accountability at any time during the reporting period; or
 - (ii) is a large (total expenses over \$30 million) for-profit public sector entity; or
 - (b) is eligible to report in accordance with the accounting requirements of Tier 2 but does not elect to report in accordance with that tier⁸.

Public benefit entities (PBE)

35. A public benefit entity (PBE) is required to report in accordance with Tier 1 PBE Accounting Requirements (i.e., full PBE Standards) if it:
- (a) (i) has public accountability at any time during the reporting period; or
 - (ii) is large (total expenses over \$30 million); or
 - (b) is eligible to report in accordance with the accounting requirements of another tier but does not elect to report in accordance with that other tier.

Definition of public accountability in XRB A1

36. XRB A1 defines an entity as having public accountability if:
- (a) it meets the IASB definition of public accountability; or

Extract from XRB A1

8 In accordance with the IASB definition, an entity has public accountability if:

- (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
- (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion).

- (b) it is deemed to have public accountability in New Zealand based on whether it is an FMC reporting entity that has a “higher level of public accountability” than other FMC reporting entities, in accordance with the Financial Markets Conduct Act 2013 (FMC Act) or other notice issued by the FMA.

⁷ The Office of the Auditor-General’s response to the proposed non-assurance services exposure draft (Oct 2021)

⁸ If an entity can elect to apply a lower tier, it is not a PIE for the purposes of the Code of Ethics.

Uncertainty about whether 'fund managers' have public accountability

37. The term 'broker' under the FMC Act and regulations is generally considered to be a financial service provider who holds or deals with client money or property on behalf of clients. This can include stockbrokers, providers of investment portfolio services, and financial advisors who receive money from clients. However, some financial service providers who are known as "brokers" do not hold any client money or property, such as some insurance brokers and mortgage brokers.⁹ In most cases, the primary business of securities brokers/dealers is to buy/sell securities on behalf of clients and/or provide investment advisory and portfolio administration services. Under the FMC Act, some securities brokers/dealers are classified as having "higher levels of accountability" than other FMC entities based on the nature of the service provided, and others are not.
38. There is some uncertainty over whether fund managers are caught by the IASB definition of public accountability and are required to apply Tier 1 reporting requirements. The FMC Act and other FMA regulations generally classify fund managers who provide discretionary investment management services (DIMS) as having a lower level of public accountability.
39. This uncertainty arises from applying the IASB definition of public accountability, specifically whether fund managers are considered to "*hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses*". This uncertainty was considered by the XRB Board and the NZASB in December 2021 and it was agreed that a project to clarify XRB A1 should commence (refer to agenda item 3) but may not completely resolve this uncertainty.
40. The extant NZ PIE definition was developed with reference to old application material from the IESBA Code that noted that a consideration was whether an entity is holding assets in a fiduciary capacity for a large number of stakeholders. This reference to "fiduciary capacity" is not included in the revised IESBA text.
41. As noted above in the key matter raised in finalising the international text, the IESBA has identified a need to further research the role of trustees, managers and advisors. While there is uncertainty as to whether fund managers have "public accountability" and are "tier 1 entities", it may be clearer if the NZ PIE definition focused on alignment with XRB A1 with reference to FMC HLPAs and the large size criteria.

Comparison with extant Australia PIE definition

42. In Australia, the current PIE definition covers entities regulated by the Australian Prudential Regulatory Authority (APRA) under various legislation including:
 - a. Authorised deposit-taking institutions and authorised non-operating holding companies (NOHCs);
 - b. Authorised insurers and authorised NOHCs;
 - c. Life insurance companies and registered NOHCs;
 - d. Private health insurers;
 - e. Disclosing entities as defined in Section 111AC of the Corporations Act 2001;
 - f. Registrable superannuation entity (RSE) licensees, and RSEs under their trusteeship that have five or more members; and

⁹ *Guidance Note: Broker Obligations*, issued by the FMA February 2014.

- g.* Other issuers of debt and equity instruments to the public.
- 43. Self-managed superannuation funds (SMSF) are unlikely to be a PIE in Australia.
- 44. Australian firms are currently *required*, rather than encouraged, to determine whether to treat additional entities as PIEs based on the nature of the business (i.e., holding assets in fiduciary capacity, size and number of employees).
- 45. The APESB's Independence guide also provides examples of PIEs that are not listed or APRA regulated entities:
 - a. Public Utility Entity: Provides essential electricity services to over 1 million people, and employs over 2000 people.
 - b. Large Sporting Club: Revenue of \$70 million, \$50 million in assets, in excess of 50,000 members.
 - c. Significant charity: provides assistance programmes to thousands of vulnerable people. Annual income \$200 million and \$200 million in assets. Over 1000 full time employees.
- 46. We continue to monitor developments in Australia with respect to the revised PIE approach.

Appendix 1: Current approach to PIEs in South Africa

R400.8b SA *A registered auditor shall regard the following entities as generally satisfying the conditions in paragraph R400.8a SA as having a large number and wide range of stakeholders, and thus are likely to be considered as Public Interest Entities:*

- Major Public Entities that directly or indirectly provide essential or strategic services or hold strategic assets for the benefit of the country.
- Banks as defined in the Banks Act, 1990 (Act No. 94 of 1990), and Mutual Banks as defined in the Mutual Banks Act 1993. (Act No. 124 of 1993).
- Market infrastructures as defined in the Financial Markets Act, 2012 (Act No. 19 of 2012).⁵
- Insurers registered under the Long-term Insurance Act, 1998 (Act No. 52 of 1998) and the Short-term Insurance Act, 1998 (Act No. 53. of 1998), excluding micro lenders.
- Collective Investment Schemes, including hedge funds, in terms of the Collective Investment Schemes Control Act, 2002 (Act No. 45 of 2002), that hold assets in excess of R15 billion.
- Funds as defined in the Pension Funds Act, 1956 (Act No. 24 of 1956), that hold or are otherwise responsible for safeguarding client assets in excess of R10 billion.
- Pension Fund Administrators (in terms of Section 13B of the Pension Funds Act, 1956 (Act No. 24 of 1956)) with total assets under administration in excess of R20 billion.
- Financial Services Providers as defined in the Financial Advisory and Intermediary Services Act, 2002 (Act No. 37 of 2002), with assets under management in excess of R50 billion.
- Medical Schemes as defined in the Medical Schemes Act, 1998 (Act No. 131 of 1998), that are open to the public (commonly referred to as "open medical schemes") or are restricted schemes with a large number of members.
- Authorised users of an exchange as defined in the Financial Markets Act, 2012 (Act No. 19 of 2012), who hold or are otherwise responsible for safeguarding client assets in excess of R10 billion.
- Other issuers of debt and equity instruments to the public⁶.

Appendix 2: Current approach to PIEs in Singapore

SG400.8A As defined in the Glossary, a public interest entity is

- (a) A listed entity; or
- (b) An entity:
 - (i) Defined by regulation or legislation as a public interest entity; or
 - (ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator.

Other entities might also be considered to be public interest entities, as set out in paragraph 400.8.

SG400.8B For the purposes of paragraph SG400.8A(b)(i), a public interest entity means —

- (a) Any entity that is listed or is in the process of issuing its debt or equity instruments for trading on a securities exchange in Singapore;
- (b) Any entity that is incorporated in Singapore and the securities of which are listed on a securities exchange outside Singapore; or
- (c) Any financial institution.

SG400.8C For the purposes of paragraph SG400.8A(b)(ii), the audit of large charities and large institutions of a public character shall be conducted in compliance with the same independence requirements that apply to the audit of listed entities.

Appendix 3: Office of the Auditor General approach to PIEs

<i>Auditor-General's requirement</i>	
AG R400.8	<p>As a matter of principle, the Auditor-General's independence requirements apply equally to all public entities and to all work carried out by, or on behalf of, the Auditor-General. In practice, this means that the requirements in PES 1 that apply to "public interest entities" shall be applied to all public entities. The two main exceptions to this principle are:</p> <p>(a) Under section 540 <i>Long association of personnel (including partner rotation) with an audit client</i>, the Auditor-General recognises the distinction between public entities that are "public interest entities" and other public entities. The Auditor-General's rotation requirements are specified in section 540.</p> <p>(b) Under subsection 601 <i>Accounting and bookkeeping services</i>, the Auditor-General recognises that the provision of temporary accounting assistance or conducting compilation engagements is appropriate, in the interests of accountability, for small public entities within the parameters specified by the Auditor-General in subsection 601.</p>

Definitions of Listed Entity and Public Interest Entity – Proposed Revised Text (Mark-up from Posted Version)

Notes to IESBA Participants

This version is a mark-up version of the posted version (**Agenda Item 2-D**) for discussion by the IESBA at the December 3 session.

The numbering of the paragraphs in this agenda paper is based on the 2021 edition of the IESBA Code, taking into account the approved revisions from the IESBA's [Non-Assurance Services \(NAS\)](#) and [Fees](#) Final Pronouncements. Paragraphs highlighted in grey only contain changes to the paragraph numbers.

Refer to **Agenda Item 2-B** for the proposed revised text marked up from the September 2021 posted version and **Agenda Item 2-C** for the proposed revised text marked up from the Exposure Draft, [Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code](#) (PIE ED).

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Introduction

General

...

Public Interest Entities

- 400.8 Some of the requirements and application material set out in this Part are applicable only to the audit of financial statements of public interest entities, reflecting significant public interest in the financial condition of these entities due to the potential impact of their financial well-being on stakeholders.
- 400.9 Factors to consider in evaluating the extent of public interest in the financial condition of an entity include:
- The nature of the business or activities, such as taking on financial obligations to the public as part of [anthe](#) entity's primary business.
 - Whether the entity is subject to regulatory supervision designed to provide confidence that the entity will meet its financial obligations.
 - Size of the entity.
 - The importance of the entity to the sector in which it operates including how easily replaceable it is in the event of financial failure.
 - Number and nature of stakeholders including investors, customers, creditors and employees.

- The potential systemic impact on other sectors and the economy as a whole in the event of financial failure of the entity.

400.10 Stakeholders have heightened expectations regarding the independence of a firm performing an audit engagement for a public interest entity because of the significance of the public interest in the financial condition of the entity. The purpose of the requirements and application material for public interest entities as described in paragraph 400.8 is to meet these expectations, thereby enhancing stakeholders' confidence in the entity's financial statements that can be used when assessing the entity's financial condition.

Reports that Include a Restriction on Use and Distribution

400.11 An audit report might include a restriction on use and distribution. If it does and the conditions set out in Section 800 are met, then the independence requirements in this Part may be modified as provided in Section 800.

Assurance Engagements other than Audit and Review Engagements

400.12 Independence standards for assurance engagements that are not audit or review engagements are set out in Part 4B – *Independence for Assurance Engagements Other than Audit and Review Engagements*.

Requirements and Application Material

General

R400.13 A firm performing an audit engagement shall be independent.

R400.14 A firm shall apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence in relation to an audit engagement.

Prohibition on Assuming Management Responsibilities

R400.15 A firm or a network firm shall not assume a management responsibility for an audit client.

400.15 A1 Management responsibilities involve controlling, leading and directing an entity, including making decisions regarding the acquisition, deployment and control of human, financial, technological, physical and intangible resources.

400.15 A2 When a firm or a network firm assumes a management responsibility for an audit client, self- review, self-interest and familiarity threats are created. Assuming a management responsibility might also create an advocacy threat because the firm or network firm becomes too closely aligned with the views and interests of management.

400.15 A3 Determining whether an activity is a management responsibility depends on the circumstances and requires the exercise of professional judgment. Examples of activities that would be considered a management responsibility include:

- Setting policies and strategic direction.
- Hiring or dismissing employees.
- Directing and taking responsibility for the actions of employees in relation to the employees 'work for the entity.

- Authorizing transactions.
- Controlling or managing bank accounts or investments.
- Deciding which recommendations of the firm or network firm or other third parties to implement.
- Reporting to those charged with governance on behalf of management.
- Taking responsibility for:
 - The preparation and fair presentation of the financial statements in accordance with the applicable financial reporting framework.
 - Designing, implementing, monitoring or maintaining internal control.

400.15 A4 Subject to compliance with paragraph R400.16, providing advice and recommendations to assist the management of an audit client in discharging its responsibilities is not assuming a management responsibility. The provision of advice and recommendations to an audit client might create a self-review threat and is addressed in Section 600.

R400.16 When performing a professional activity for an audit client, the firm shall be satisfied that client management makes all judgments and decisions that are the proper responsibility of management. This includes ensuring that the client's management:

- (a)** Designates an individual who possesses suitable skill, knowledge and experience to be responsible at all times for the client's decisions and to oversee the activities. Such an individual, preferably within senior management, would understand:
- (i)** The objectives, nature and results of the activities; and
 - (ii)** The respective client and firm or network firm responsibilities.

However, the individual is not required to possess the expertise to perform or re-perform the activities.

- (b)** Provides oversight of the activities and evaluates the adequacy of the results of the activities performed for the client's purpose.
- (c)** Accepts responsibility for the actions, if any, to be taken arising from the results of the activities.

Public Interest Entities

R400.17 For the purposes of this Part, a firm shall treat an entity as a public interest entity when it falls within any of the following categories:

- (a)** A publicly traded entity;
- (b)** An entity one of whose main functions is to take deposits from the public;
- (c)** An entity one of whose main functions is to provide insurance to the public; or
- (d)** An entity specified as such by law, regulation or professional standards to meet the purpose ~~set out~~[described](#) in paragraph 400.10.

- 400.17 A1 When terms other than public interest entity are applied to entities by law, regulation or professional standards to meet the purpose ~~set out~~described in paragraph 400.10, such terms are regarded as equivalent terms. However, if law, –regulation or professional standards designate entities as “public interest entities” for reasons unrelated to the purpose ~~set out~~described in paragraph 400.10, that designation does not necessarily mean that such entities are public interest entities for the purposes of the Code.
- R400.18** In complying with the requirement in paragraph R400.17, a firm shall take into account more explicit definitions established by law, regulation or professional standards for the categories set out in paragraph R400.17 (a) to (c).
- 400.18 A1 The categories set out in paragraph R400.17 (a) to (c) are broadly defined and no recognition is given to any size or other factors that can be relevant in a specific jurisdiction. The Code therefore provides for those bodies responsible for setting ethics standards for professional accountants to more explicitly define these categories by, for example:
- Making reference to specific public markets for trading securities.
 - Making reference to the local law or regulation defining banks or insurance companies.
 - Incorporating exemptions for specific types of entities, such as an entity with mutual ownership.
 - Setting size criteria for certain types of entities.
- 400.18 A2 Paragraph R400.17 (d) anticipates that those bodies responsible for setting ethics standards for professional accountants will add categories of public interest entities to meet the purpose described in paragraph 400.10, taking into account factors such as those set out in paragraph 400.9. Depending on the facts and circumstances in a specific jurisdiction, such categories could include:
- Pension funds.
 - Collective investment vehicles.
 - Private entities with large numbers of stakeholders (other than investors).
 - Not-for-profit organizations or governmental entities.
 - Public utilities.
- 400.19 A1 A firm is encouraged to determine whether to treat other entities as public interest entities for the purposes of this Part. When making this determination, the firm might consider the factors set out in paragraph 400.9 as well as the following factors:
- Whether the entity is likely to become a public interest entity in the near future.
 - Whether in similar circumstances a predecessor firm has applied independence requirements for public interest entities to the entity.
 - Whether in similar circumstances the firm has applied independence requirements for public interest entities to other entities.
 - Whether the entity has been specified as not being a public interest entity by law, regulation or professional standards.

- Whether the entity or other stakeholders requested the firm to apply independence requirements for public interest entities to the entity and, if so, whether there are any reasons for not meeting this request.
- The entity's corporate governance arrangements, for example, whether those charged with governance are distinct from the owners or management.

Public Disclosure – Application of Independence Requirements for Public Interest Entities

R400.20 Subject to paragraph R400.21, when a firm has applied the independence requirements for public interest entities as described in paragraph 400.8 in performing an audit of the financial statements of an entity, the firm shall publicly disclose that fact in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders.

R400.21 As an exception to paragraph R400.20, a firm may not make such a disclosure if doing so will result in disclosing confidential future plans of the entity.

Related Entities

R400.22 As defined, an audit client that is a publicly traded entity in accordance with paragraphs R400.17 and R400.18 includes all of its related entities. For all other entities, references to an audit client in this Part include related entities over which the client has direct or indirect control. When the audit team knows, or has reason to believe, that a relationship or circumstance involving any other related entity of the client is relevant to the evaluation of the firm's independence from the client, the audit team shall include that related entity when identifying, evaluating and addressing threats to independence.

[Paragraphs 400.23 to 400.29 are intentionally left blank]

PROPOSED CONSEQUENTIAL AND CONFORMING AMENDMENTS

PART 3 - PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

SECTION 300

APPLYING THE CONCEPTUAL FRAMEWORK – PROFESSIONAL ACCOUNTANTS IN PUBLIC PRACTICE

Requirements and Application Material

Evaluating Threats

Consideration of New Information or Changes in Facts and Circumstances

300.7 A7 Examples of new information or changes in facts and circumstances that might impact the level of a threat include:

- When the scope of a professional service is expanded.
- When the client becomes a publicly traded entity or acquires another business unit.
- When the firm merges with another firm.
- When the professional accountant is jointly engaged by two clients and a dispute emerges between the two clients.
- When there is a change in the professional accountant's personal or immediate family relationships.

PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 600

PROVISION OF NON-ASSURANCE SERVICES TO AN AUDIT CLIENT

Requirements and Application Material

General

Risk of Assuming Management Responsibilities when Providing a Non-Assurance Service

600.7 A1 When a firm or a network firm provides a non-assurance service to an audit client, there is a risk that the firm or network firm will assume a management responsibility unless the firm or network firm is satisfied that the requirements in paragraph R400.16 have been complied with.

Identifying and Evaluating Threats

All Audit Clients

...

600.9 A2 Factors that are relevant in identifying the different threats that might be created by providing a non-assurance service to an audit client, and evaluating the level of such threats include:

- The nature, scope, intended use and purpose of the service.
- The manner in which the service will be provided, such as the personnel to be involved and their location.
- The legal and regulatory environment in which the service is provided.
- Whether the client is a public interest entity.
- The level of expertise of the client's management and employees with respect to the type of service provided.
- The extent to which the client determines significant matters of judgment. (Ref: Para. R400.15 to R400.16).
- Whether the outcome of the service will affect the accounting records or matters reflected in the financial statements on which the firm will express an opinion, and, if so:
 - The extent to which the outcome of the service will have a material effect on the financial statements.
 - The degree of subjectivity involved in determining the appropriate amounts or treatment for those matters reflected in the financial statements.
- The nature and extent of the impact of the service, if any, on the systems that generate information that forms a significant part of the client's:
 - Accounting records or financial statements on which the firm will express an opinion.
 - Internal controls over financial reporting.
- The degree of reliance that will be placed on the outcome of the service as part of the audit.
- The fee relating to the provision of the non-assurance service.

...

Providing advice and recommendations

R600.17 As an exception to paragraph R600.16, a firm or a network firm may provide advice and recommendations to an audit client that is a public interest entity in relation to information or matters arising in the course of an audit provided that the firm:

- (a) Does not assume a management responsibility (Ref: Para. R400.15 and R400.16); and

- (b) Applies the conceptual framework to identify, evaluate and address threats, other than self-review threats, to independence that might be created by the provision of that advice.

...

Considerations for Certain Related Entities

R600.26 This section includes requirements that prohibit firms and network firms from providing certain non-assurance services to audit clients. As an exception to those requirements and the requirement in paragraph R400.15, a firm or a network firm may assume management responsibilities or provide certain non-assurance services that would otherwise be prohibited to the following related entities of the client on whose financial statements the firm will express an opinion:

- (a) An entity that has direct or indirect control over the client;
- (b) An entity with a direct financial interest in the client if that entity has significant influence over the client and the interest in the client is material to such entity; or
- (c) An entity which is under common control with the client,

provided that all of the following conditions are met:

- (i) The firm or a network firm does not express an opinion on the financial statements of the related entity;
- (ii) The firm or a network firm does not assume a management responsibility, directly or indirectly, for the entity on whose financial statements the firm will express an opinion;
- (iii) The services do not create a self-review threat; and
- (iv) The firm addresses other threats created by providing such services that are not at an acceptable level.

...

SUBSECTION 601 – ACCOUNTING AND BOOKKEEPING SERVICES

...

Requirements and Application Material

...

Potential Threats Arising from the Provision of Accounting and Bookkeeping Services

...

Audit Clients that are Not Public Interest Entities

...

601.5 A2 Examples of services that might be regarded as routine or mechanical include:

- Preparing payroll calculations or reports based on client-originated data for approval and payment by the client.

- Recording recurring transactions for which amounts are easily determinable from source documents or originating data, such as a utility bill where the client has determined or approved the appropriate account classification.
- Calculating depreciation on fixed assets when the client determines the accounting policy and estimates of useful life and residual values.
- Posting transactions coded by the client to the general ledger.
- Posting client-approved entries to the trial balance.
- Preparing financial statements based on information in the client-approved trial balance and preparing related notes based on client-approved records.

The firm or a network firm may provide such services to audit clients that are not public interest entities provided that the firm or network firm complies with the requirements of paragraph R400.16 to ensure that it does not assume a management responsibility in connection with the service and with the requirement in paragraph R601.5 (b).

...

SUBSECTION 605 – INTERNAL AUDIT SERVICES

...

Requirements and Application Material...

...

Risk of Assuming Management Responsibility When Providing an Internal Audit Service

R605.3 Paragraph R400.15 precludes a firm or a network firm from assuming a management responsibility. When providing an internal audit service to an audit client, the firm shall be satisfied that:

- (a)** The client designates an appropriate and competent resource, who reports to those charged with governance to:
 - (i)** Be responsible at all times for internal audit activities; and
 - (ii)** Acknowledge responsibility for designing, implementing, monitoring and maintaining internal control;
- (b)** The client reviews, assesses and approves the scope, risk and frequency of the internal audit services;
- (c)** The client evaluates the adequacy of the internal audit services and the findings resulting from their performance;
- (d)** The client evaluates and determines which recommendations resulting from internal audit services to implement and manages the implementation process; and
- (e)** The client reports to those charged with governance the significant findings and recommendations resulting from the internal audit services.

...

SUBSECTION 606 – INFORMATION TECHNOLOGY SYSTEMS SERVICES

...

Requirements and Application Material

...

Risk of Assuming Management Responsibility When Providing an IT Systems Service

R606.3 Paragraph R400.15 precludes a firm or a network firm from assuming a management responsibility. When providing IT systems services to an audit client, the firm or network firm shall be satisfied that:

- (a)** The client acknowledges its responsibility for establishing and monitoring a system of internal controls;
- (b)** The client assigns the responsibility to make all management decisions with respect to the design and implementation of the hardware or software system to a competent employee, preferably within senior management;
- (c)** The client makes all management decisions with respect to the design and implementation process;
- (d)** The client evaluates the adequacy and results of the design and implementation of the system; and
- (e)** The client is responsible for operating the system (hardware or software) and for the data it uses or generates.

...

SUBSECTION 609 – RECRUITING SERVICES

...

Requirements and Application Material

...

Risk of Assuming Management Responsibility When Providing a Recruiting Service

R609.3 Paragraph R400.15 precludes a firm or a network firm from assuming a management responsibility. When providing a recruiting service to an audit client, the firm shall be satisfied that:

- (a)** The client assigns the responsibility to make all management decisions with respect to hiring the candidate for the position to a competent employee, preferably within senior management; and
- (b)** The client makes all management decisions with respect to the hiring process, including:
 - Determining the suitability of prospective candidates and selecting suitable candidates for the position.

- Determining employment terms and negotiating details, such as salary, hours and other compensation.

...

GLOSSARY, INCLUDING LISTS OF ABBREVIATIONS

Audit *In Part 4A, the term “audit” applies equally to “review.”*

Audit client An entity in respect of which a firm conducts an audit engagement. When the client is a publicly traded entity in accordance with paragraphs R400.17 and R400.18, audit client will always include its related entities. When the audit client is not a publicly traded entity, audit client includes those related entities over which the client has direct or indirect control. (See also paragraph R400.22.)

In Part 4A, the term “audit client” applies equally to “review client.”

Key audit partner The engagement partner, the individual responsible for the engagement quality control review, and other audit partners, if any, on the engagement team who make key decisions or judgments on significant matters with respect to the audit of the financial statements on which the firm will express an opinion. Depending upon the circumstances and the role of the individuals on the audit, “other audit partners” might include, for example, audit partners responsible for significant subsidiaries or divisions.

May *This term is used in the Code to denote permission to take a particular action in certain circumstances, including as an exception to a requirement. It is not used to denote possibility.*

Proposed accountant A professional accountant in public practice who is considering accepting an audit appointment or an engagement to perform accounting, tax, consulting or similar professional services for a prospective client (or in some cases, an existing client).

Public interest entity For the purposes of Part 4A, an entity is a public interest entity when it falls within any of the following categories:

- (a) A publicly traded entity;
- (b) An entity one of whose main functions is to take deposits from the public;
- (c) An entity one of whose main functions is to provide insurance to the public; or
- (d) An entity specified as such by law, regulation or professional standards to meet the purpose ~~set out~~[described](#) in paragraph 400.10.

The Code provides for the categories to be more explicitly defined or added to as described in paragraphs 400.18 A1 and 400.18 A2.

Publicly traded entity An entity that issues financial instruments that are transferrable and traded through a publicly accessible market mechanism, including through listing on a stock exchange.

A listed entity as defined by relevant securities law or regulation is an example of a publicly traded entity.

Date: 3 December 2021

To: NZASB Members

From: Joanne Scott and Anthony Heffernan

Subject: Auditor remuneration

Purpose¹

1. This memo asks the Board if it wishes to propose changes to audit fee² disclosures in NZ IFRS and PBE Standards now or wait and propose changes at the same time as the Australian Accounting Standards Board (AASB). It sets out the relevant background to this question and matters to consider.

Recommendations

2. The Board is asked to PROVIDE FEEDBACK on whether there is a need to change the audit fee disclosures in NZ IFRS and PBE Standards, the best timing for this, and its views on possible changes to the categories required to be disclosed.

Background

3. The discussion of audit fee disclosures in accounting standards needs to be considered in the context of recent changes to auditing and assurance, and professional standards, and calls by regulators and public bodies to enhance actual or perceived auditor independence.
4. Both the NZASB and the AASB have been contemplating changes to audit fee disclosures for some time. The AASB has agreed to propose changes to the disclosures, but is waiting on other events before finalising those proposals. The NZASB and NZAuASB have also discussed this topic at the last two joint meetings. There are therefore international, trans-Tasman and domestic considerations.
5. The Appendix to this memo sets out a comprehensive list of events, discussions and documents, organised by date. Although this memo repeats some of the information in the Appendix, the memo has less detail and discusses related matters together.

Structure of this memo

6. The remainder of this memo is set out as follows.
 - (a) Audit fee disclosures in New Zealand
 - (b) Rationale for audit fee disclosures

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

² The term 'audit fees' is used here to mean any fees paid to the audit firm or individual audit practitioner for audit services, assurance services, and any other types of services.

- (c) Changes to auditing, assurance and professional standards
- (d) Australian background
- (e) Matters for the Board to consider.

Audit fee disclosures in New Zealand

7. The audit fee disclosures in accounting standards and the Companies Act are shown below. The accounting standards refer to ‘all other services’ without specifying any further level of detail. FMA guidance ³ has shaped practice. The categories suggested by the FMA are:
- Audit and review of financial statements
 - Other services
 - Regulatory audit work
 - Other assurance services
 - Tax services
 - Other services.
8. There have been calls to require disclosure of more detailed fee categories in accounting standards.

Table 1 Current audit fee disclosure requirements

FRS-44 New Zealand Additional Disclosures	
*8.1	An entity shall disclose fees to each auditor or reviewer, including any network firm, separately for: <ul style="list-style-type: none"> (a) the audit or review of the financial statements; and (b) all other services performed during the reporting period.
*8.2	For 8.1 (b) above, an entity shall describe the nature of other services.
PBE IPSAS 1 Presentation of Financial Statements	
*116.1	An entity shall disclose fees to each auditor or reviewer, including any network firm,¹ separately for: <ul style="list-style-type: none"> (a) the audit or review of the financial statements; and (b) all other services performed during the reporting period.
*116.2	To comply with paragraph 116.1 above, an entity shall describe the nature of other services.
	¹ Network firm is discussed in Professional and Ethical Standard (PES) 1 (Revised) <i>Ethical Standards for Assurance Practitioners</i> .
Companies Act 2013	
211	Contents of annual report
(1)	Every annual report for a company must be in writing and be dated and, subject to subsection (3), must—
	...

³ Disclosure of fees paid to auditors by listed issuers (FMA, April 2014)

- (j) state the amounts payable by the company to the person or firm holding office as auditor of the company as audit fees and, as a separate item, fees payable by the company for other services provided by that person or firm; and
- (2) A company that is required to include group financial statements in its annual report must include, in relation to its subsidiaries, the information specified in paragraphs (e) to (j) of subsection (1).
- (3) The annual report of a company need not comply with any of paragraphs (a), and (e) to (j) of subsection (1), and subsection (2) if shareholders who together hold at least 95% of the voting shares (within the meaning of section 198) agree that the report need not do so.

9. The Australian and New Zealand audit fee disclosures for **Tier 1** entities are currently harmonised, but the AASB is working on proposals to require more detailed disclosure. The AASB's work is discussed later in this memo (see '[Australian background](#)').
10. The Australian and New Zealand audit fee disclosures for **Tier 2** entities have been harmonised at various points in the past, but are not currently harmonised. Some key points follow.
 - (a) Prior to 2012 all New Zealand entities, including those that qualified for differential reporting or RDR concessions, were required to disclose the audit fee information required by accounting standards.
 - (b) In 2012 a Tier 2 RDR concession for audit fee disclosures was introduced to align with Australian RDR concessions at that time. There are still RDR concessions in FRS-44 and PBE IPSAS 1.
 - (c) In March 2020 the AASB issued AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. AASB 1060 required that Tier 2 entities make the same audit fee disclosures as Tier 1 entities.
 - (d) Although there have been some suggestions that the Tier 2 RDR concessions for audit fee disclosures be withdrawn, this issue would probably be better addressed when the Board reconsiders the RDR more generally. The Board plans to review the Tier 2 RDR concessions once the IASB has completed its project on subsidiaries without public accountability.

Rationale for audit fee disclosures

11. Auditor independence is necessary to maintain investor confidence in audits of financial statements and other assurance of information. Audit fee disclosures help stakeholders make judgements and assessment about auditor independence. They also give stakeholders information about the cost of audit and assurance.
12. Regulators argue that mandatory disclosure of auditor fees and the types of services provided allows investors and other financial statement users to evaluate potential conflicts of interest that could compromise auditor objectivity.⁴ The disclosure in the financial statements, together with disclosures in the auditor's report about any relationship with the client other than as auditor, informs the user's evaluation of independence.

⁴ Similar views have been expressed by New Zealand investors in interviews with XRB staff.

13. Fee disclosure is only one of the mechanisms used to ensure auditor independence and transparency around that independence. A recent [briefing paper](#) by Accountancy Europe (November 2021) gives a good overview of mechanisms in Europe, many of which are also relevant in New Zealand. These include:
 - (a) prohibitions on auditors from providing many non-audit services. Prohibitions may be legal or ethical, including those in *The International Code of Ethics*;
 - (b) oversight of the audit profession by independent public authorities;
 - (c) scrutiny by boards and audit committees of non-audit services;
 - (d) audit firm policies regarding independence; and
 - (e) disclosure of fee-related information.
14. The briefing paper also explains why auditors are sometimes asked or required to provide other services to audit clients and notes that there can be a public interest aspect to such involvement. It describes three main types of non-audit services:
 - (a) services closely related to the audit itself and which may be considered as an extension of the financial statements audit;
 - (b) services required by legislation to be performed by an independent provider; and
 - (c) services demanded by third parties who need reliable information and receive comfort from the independent auditor's involvement.
15. Interestingly it notes that the distinction between these types of services is not always clear, and an assurance service may exhibit more than one of these characteristics. Hence the document does not make a categorical classification of such services.
16. The purpose of the paper seems to have been to document the existing situation and encourage European policymakers to establish frameworks that specify each party's responsibilities when they create broader reporting requirements. For example, should independent assurance of corporate-societal impacts be required, and who should provide such assurance?

Changes to auditing, assurance and professional standards

17. Over recent years there has been a push to enhance auditor independence and perceptions of independence by prohibiting or limiting the ability of auditors to perform non-assurance services and requiring more information about the performance of non-audit services.
18. Table 2 summarises international requirements and recent changes. It also notes which changes have since been considered in New Zealand and Australia and the jurisdiction-specific changes that are being proposed within those projects.

Table 2 International changes and flow on effects in Australia and New Zealand

International Auditing and Assurance Standards Board (IAASB)
The IAASB sets high-quality international standards for auditing, assurance, and quality control that strengthen public confidence in the global profession. The NZAuASB develops and issues Auditing & Assurance Standards based on IAASB standards.
<p>ISA (NZ) 260 <i>Communication with Those Charged with Governance (Revised)</i></p> <ul style="list-style-type: none"> Requires auditors to communicate with those charged with governance (TCWG) total fees charged during the period covered by the financial statements for audit and non-audit services provided by the firm and network firms to the entity and components controlled by the entity. As part of this communication, ISA (NZ) 260 paragraph 17(a)(i)–(ii) requires that the fees be allocated to categories that are appropriate to assist TCWG in assessing the effect of services on the independence of the auditor.
<p>ISA (NZ) 700 <i>Forming an Opinion and Reporting on Financial Statements</i></p> <ul style="list-style-type: none"> Paragraph NZ 33.1, requires that the external auditor make a statement in the audit report as to the existence of any relationship (other than that of auditor) which the auditor has with, or any interests which the auditor has in, the entity being audited.
International Ethics Standards Board for Accountants (IESBA)
The IESBA sets high-quality, internationally appropriate ethics standards for professional accountants, including auditor independence requirements. The NZAuASB develops and issues Auditing & Assurance Standards based on IESBA standards.
<p>IESBA Project on non-assurance services</p> <ul style="list-style-type: none"> April 2021: IESBA issues <i>Revisions to the Non-Assurance Services Provisions of the Code</i>. These changes include stricter prohibitions on the types of non-assurance service (NAS) which firms and network firms may or may not provide to an audit or assurance client. The revised provisions expressly prohibit firms and network firms from providing NAS to their audit clients that are public interest entities (PIES) <i>where that service might create a self-review threat</i>. More detail about these changes is available in the Appendix to this memo. <p><u>New Zealand</u></p> <ul style="list-style-type: none"> July 2021: NZAuASB issues ED⁵ which proposes to: <ul style="list-style-type: none"> adopt the IESBA non-assurance changes to the Code; prohibit the provision of tax advisory and tax planning services to an audit client and modify the IESBA Code discussion of self-review threat from providing tax advisory and tax planning services to an audit client; provide guidance on the types of audit-related services that a firm is often best placed to perform. The guidance is the form of application material acknowledging that additional work performed by the firm that is related to, or that enhances the quality of, an audit engagement will generally not create a self-review threat to independence. The ED gives examples. Time of writing: NZAuASB still deliberating on feedback received. Feedback received to date indicates the importance of audit fee disclosures as part of the increased focus on non-assurance services. Extracts from the NZAuASB ITC and ED (re services and self-review threat) follow. <p><u>NZAuASB ITC extracts</u></p> <p>41. The proposed guidance is in the form of application material acknowledging that additional work performed by the firm that is related to, or that enhances the quality of, an audit engagement will generally not create a self-review threat to independence. Examples of audit-related engagements include:</p>

⁵ ED 2021-4 *Amendments to Professional and Ethical Standard 1: Non-Assurance Services*

- Engagements required by law or regulation to be performed by the auditor or assurance practitioner.
- Engagements that involve the formal expression of an assurance opinion or conclusion.
- Engagements to perform agreed-upon procedures. (Refer NZ600 14 A1)

42. Agreed-upon procedures engagements that the firm might perform in its role as auditor of the entity that generally will not create a self-review threat to independence include, for example, as scrutineer of votes at an annual general meeting or procedures in relation to grant funding the audit client has received from a government department.

NZAuASB ED extracts

NZ600.14 A1 Additional work performed by the firm will not generally create a self-review threat to independence when such work is related to the audit or review engagement. Examples of audit or review related engagements include:

- Engagements required by law or regulation to be performed by the auditor or assurance practitioner.
- Engagements that involve the formal expression of an assurance opinion or conclusion.
- Engagements to perform agreed-upon procedures.

However, providing such additional services might create one or more other threats, as noted in paragraph 120.6 A4. In such circumstances, the firm is required to apply the conceptual framework to identify, evaluate and address the threats to independence

Australia

The Accounting Professional & Ethical Standards Board Limited (APESB) has not yet issued an ED to adopt the IESBA non-assurance changes to the Code.

IESBA Project on fees

April 2021: IESBA issues *Revisions to the Fee-related Provisions of the Code*.

The revisions to the fee-related provisions of the Code include:

- a prohibition on firms allowing the audit fee to be influenced by the provision of services other than audit to the audit client;
- in the case of PIEs, a requirement to cease to act as auditor if fee dependency on the audit client continues beyond a specified period;
- communication of fee-related information to those charged with governance of an entity and to the public to assist their judgments about auditor independence. The Code requires that auditors talk to PIE clients about the benefits of disclosing fee information and notes that some jurisdictions require fee disclosure and disaggregation. If a PIE does not disclose information about fees to stakeholders, the Code requires that the audit firm publicly disclose fee information;⁶ and
- enhanced guidance on identifying, evaluating and addressing threats to independence.

More detail is available in the Appendix to this memo. Also, the next section of this memo contains more information on the categories of fees referred to.

New Zealand

- The NZAuASB exposed the IESBA ED at the time as the IESBA. The ITC that accompanied the NZAuASB NAS ED (ED 2021-4, issued in July 2021) stated that the NZAuASB expects to adopt the revised IESBA fee provisions in New Zealand at a later date, “with a cross-reference to the New Zealand disclosure requirements.”

⁶ This requirement in the Code does not have any impact in the New Zealand context, because the accounting standards require disclosure of information about fees.

<p><u>Australia</u></p> <ul style="list-style-type: none"> • May 2021: APESB issues ED⁷ to incorporate IESBA changes to the fee-related provisions in the Code. The ED also includes Australian-specific proposals to address the PJC’s fee-related recommendations. Comments due to APESB: 31 August 2021. • Time of writing: The APESB is still deliberating on feedback received.
<p>IESBA Project on definitions of listed entity and public interest entity</p> <ul style="list-style-type: none"> • January 2021: IESBA issues ED proposing changes to broaden the definition of a PIE. PIEs are subject to more stringent independence requirements and audit fee disclosure requirements. Comments due to IESBA: 3 May 2021. • Time of writing: IESBA still deliberating on feedback received. It is expected to finalise the PIE definition shortly.

Australian background

19. The AASB is currently working on proposals to amend the audit fee disclosures in AASB 1054 *Australian Additional Disclosures*. The AASB’s work is largely in response to the Australia Parliamentary Joint Committee (PJC) report, *Regulation of Auditing in Australia* (November 2020) but will also be informed by:
 - (a) AASB Research Report 15 *Review of Auditor Remuneration Disclosure Requirements* (December 2020);
 - (b) the views of the Australian Securities and Investment Commission; and
 - (c) recent changes, or proposals to change, the auditor independence and disclosure requirements in other standards.

20. The PJC report highlighted two main issues of relevance to auditor independence: the perceived closeness of the auditor with the audited entity, and the provision of non-audit services. The report contained 10 recommendations, three of which related to auditor tenure and auditor remuneration (see below).

Table 3 PJC recommendations

<p>Recommendation 3 Disclose auditor remuneration</p> <p>The committee recommended that the Financial Reporting Council, in partnership with ASIC, by the end of the 2020–21 financial year, oversee consultation, development and introduction under Australian standards of:</p> <ul style="list-style-type: none"> • defined categories and associated fee disclosure requirements in relation to audit and non-audit services; and • a list of non-audit services that audit firms are explicitly prohibited from providing to an audited entity.
<p>Recommendation 6 Disclose auditor tenure</p> <p>The committee recommended that the FRC, by the end of the 2020–21 financial year, oversee the revision and implementation of Australian standards to require audited entities to disclose auditor tenure in annual financial reports. Such disclosures should include both the length of tenure of the entity’s external auditor, and of the lead audit partner.</p>

⁷ ED 03/21 *Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants (including Independence Standards)*

Recommendation 7 Disclose why no public tender
Audited entities that have not undertaken a public tender process in the last 10 years should explain why this has not occurred.

21. In February this year the AASB directed staff to begin work on drafting revised auditor remuneration disclosures based on the work presented in AASB Research Report 15 and other outreach and research activities. The AASB indicated that it would consider the timing of the ED once (i) IESBA has finalised its projects on fees and non-assurance services and (ii) the Australian federal Government has responded to the PJC recommendations. At the time of writing it is not clear when or if the Australian federal Government will formally respond to the PJC recommendations.
22. In June this year the AASB discussed options for disclosing audit tenure and auditor remuneration. The AASB noted the audit and non-audit service categories recommended by AASB Research Report 15 (AASB RR 15) and those proposed in the APESB ED (May 2021). As shown below, there are no significant differences between the two.

Table 4 AASB RR 15 vs APESB ED categories

AASB RR 15	APESB ED ⁸
Audit services (with these being defined)	Fees for audit services
Audit-related services	Fees for audit-related services (based on UK Ethical Standards 2019)
Other assurance services	Fees for other assurance services (based on UK Ethical Standards 2019)
Taxation services	Fees for tax services (adapted from APES 220 <i>Taxation Services</i>)
All other non-audit services, together with a description of the nature of services in each category	Fees for other services

23. The AASB acknowledged that the APESB ED defines the services within each category, but noted that APES 110 provides *guidance* rather than mandatory requirements. The AASB decided that AASB 1054 should define the services included in each category. The AASB also decided to comment on the APESB ED and to liaise with the APESB in developing the disclosure proposals.
24. The AASB indicated its intention to wait for the government response to the PJC Inquiry recommendations before issuing an ED on fee disclosure. In the interim, the AASB plans to continue deliberating the proposals to amend AASB 1054.

⁸ There is more information about the APESB ED in the next section of this memo.

Matters for the Board to consider

25. As the previous sections in this memo show, in discussing potential changes to audit fee disclosures we need to be mindful of the context. In the remainder of this memo we invite the Board to consider **whether** it should consider more detailed audit fee disclosures, **what** more detailed disclosures might look like, and **when** it would be best to do this.

Whether to consider more detailed audit fee disclosures

26. This section begins with a table summarising factors suggesting change is needed, and other factors suggesting that change may not be required, or may not be urgent. It then goes on to explain why, from an auditing and assurance perspective, more detailed audit fee disclosures in accounting standards are important.

Table 5 The case for more detailed audit fee disclosures in accounting standards

Case for changing	Is change required / urgent?
International reviews of auditor independence and oversight in response to corporate failures <ul style="list-style-type: none"> • IESBA changes to Code to limit or prohibit NAS • IESBA changes to Code require more information about fees, including fees for NAS. 	There is a relatively low level of NAS in New Zealand – around 16% of fees charged by audit firms. ⁹ This is due in part to the prohibitions and limitations on the provision of NAS by:
Fee disclosures have been under the spotlight in Australia with the PJC’s recommendation for more detailed fee disclosure, the Australian-specific proposed fee categories in the APESB ED and the AASB’s plans to issue an ED proposing changes to AASB 1054. The Board is required to consider harmonisation with the AASB. ¹¹	<ul style="list-style-type: none"> • the Code • the Auditor General’s Code of Ethics • audit firms’ policies • the policies of individual entities/ views of audit committees Tier 1 entities are already required to disclose and describe fees for ‘other services’.
The NZAuASB would like to refer to audit fee disclosure requirements accounting standards when it adopts the IESBA Code fee changes. The Australian-specific proposed fee categories in the APESB ED raises harmonisation issues for the NZAuASB.	There is a relatively good level of compliance with the disclosure requirements in FRS-44. ¹⁰ Nevertheless, in the absence of an outright ban on NAS, investors will continue to see auditors providing some NAS. In order to have confidence in the financial statements, investors need to understand why those services do not detract from independence.
The FMA is likely to support enhanced fee disclosure.	

27. The project to revise the NAS provisions in the Code is responsive to public interest concerns about the perceived lack of independence when firms provide NAS to their audit clients. The

⁹ FMA Audit Quality Monitoring Report 2020

¹⁰ FMA (June 2015) *Disclosure of fees paid to auditors by listed issuers*. Of the sample reviewed, 84% were found to meet the disclosure requirements of FRS-44.

¹¹ The Board is required by the Accounting Standards Framework and the 2019 Joint Ministerial Statement to consider harmonisation of for-profit requirements.

revisions are significantly more robust, but do not go as far as to ban the auditor from performing any other services.

28. Independence in appearance is a critical factor for a firm to consider before agreeing to provide a NAS to any audit client. A lack of independence in appearance undermines public confidence and impacts confidence in financial reporting, the audit, and the audit function. The perception of a lack of independence can arise from within the audit client and from investors, users or others.
29. The NZAuASB has debated at length whether the revisions will go far enough to address a perceived (or actual) lack of independence when firms provide NAS, and even considered whether the New Zealand standards should go as far as to ban all NAS. It received feedback from XRAP, particularly from the governance members of the panel that, while external perceptions are important, it is also important not to exclude the possibility of the entity deriving benefit from additional services that are best provided by the auditor without compromising the firm's independence. The NZAuASB agrees that, in some cases, there may be benefits to an entity (in terms of both efficiency and audit quality) in the auditor performing certain limited services in addition to the audit engagement. The NZAuASB determined that it would be inappropriate to go as far as to ban all NAS.
30. This view was confirmed from various perspectives at a recent XRB panel discussion.
31. While there is general consensus that there is a balance at play i.e., there is benefit in the auditor performing limited services, there is not consensus on what those services should be. One example is tax advisory and planning services. The IESBA Code does not include a blanket prohibition for tax advisory and tax planning services, although there are some who consider this should be banned. This is what the NZAuASB exposure draft sought views on. Feedback demonstrates that there are mixed views on whether there is a need to ban tax advisory and tax planning services. In addition to tax advisory and planning, some respondents are of the view that the XRB ethical requirements should go even further (i.e. that the prohibition if there might be a self-review threat does not go far enough). The debate as to which services should be expressly prohibited is likely to continue, with various parties, having very different views.
32. Regardless of whether the NZAuASB decides to expressly ban tax advisory services or not, it is likely that the level of NAS will continue to drop as the new requirements are adopted. But it is also likely that audit firms will continue to perform some other services that are permitted under the rules. While auditors are permitted to continue to perform some NAS, the importance of clear, informative disclosures about what those services are and the level of fees earned relative to audit fees is an integral part of maintaining trust.
33. Separating the fees earned into additional categories of services will provide more detailed information to users (to assist them to evaluate whether the auditors and indeed TCWG have appropriately exercised their judgement as to whether those other services impair auditor independence) and to regulators and ethical standard setters to gather data on the nature and extent of other services that continue to be provided under the tighter rules. The importance

of this disclosure was highlighted by investors at a recent XRB panel discussion and by practitioners in written submissions to the XRB.

34. The issue that needs to be explored in more detail, is what the categories of disclosure should be in light of the new ethical requirements, that tighten the rules but do not outright ban NAS. The FMA guidance on this adds weight to the need for additional categories of disclosure than what is currently required by the accounting standards. The ongoing work in Australia and the PJC recommendations also highlights that there is a need for enhancements to the current disclosure requirements.

What more detailed disclosures might look like

35. We have begun by looking at the categories used in the APESB ED. This is because the Board would normally look to harmonise disclosures with Australian Accounting Standards and the AASB is already considering the APESB categories. These categories were mentioned earlier but Table 6 below has more detail.

Table 6 Fee categories in APESB ED (May 2021)

IESBA Fee-related provisions (April 2021) / APESB ED Fee-related provisions (May 2021)
<p><u>International requirements re fee-related information</u></p> <p>In keeping with the international changes to the Code, the APESB ED proposes to require communication of fee-related information to <i>those charged with governance</i>. The two categories for that disclosure are:</p> <ul style="list-style-type: none"> • fees for the audit of the financial statements • fees for other services. The IESBA Code and APESB ED give examples of categories that might be used in providing background and context about fees to enable those charged with governance to consider the independence of the firm. These suggestions are: <ul style="list-style-type: none"> ○ the amount of fees for other services that are required by law or regulation; ○ the nature of other services provided and their associated fees; ○ information on the nature of the services provided under a general policy approved by those charged with governance and associated fees; and ○ the proportion of fees referred to in paragraph R410.25(a) to the aggregate of the fees charged by the firm and network firms for the audit of the financial statements on which the firm expresses an opinion. <p>The international Code (and the APESB ED) also note that public disclosure of fee information to stakeholders is beneficial. If a PIE does not disclose fee information to stakeholders, the Code (and APESB ED) require that the auditor publicly disclose fee information for the following categories (paraphrased):</p> <ul style="list-style-type: none"> • fees for the audit of the financial statements (on which the firm expresses an opinion) • fees charged to entities consolidated within the statements on which the auditor expresses an opinion) • other fees charged to related entities that are relevant to the evaluation of the firm’s independence.
<p><u>Description of Australian-specific fee disclosure proposals in the APESB ED</u></p> <p>The APESB ED (paragraph AUST 410.29.1 A1) includes some Australian-specific material which says firms should consider the following categories in making disclosures in relation to fees received or receivable for professional services provided to audit clients. These categories are similar to those proposed by ASIC in 2019.</p> <ul style="list-style-type: none"> • Fees for audit services • Fees for audit-related services (based on UK Ethical Standards 2019)

- Fees for other assurance services (based on UK Ethical Standards 2019)
- Fees for tax services (adapted from APES 220 Taxation Services)
- Fees for other services

The new row in this table shows the actual text of AUST 410.29.1 A1.

APESB ED paragraph AUST 410.29.1 A1

Paragraph 410.3 A3 is shown for context.

410.3 A3. For the purposes of this section, audit fees comprise fees or other types of remuneration for an audit or review of Financial Statements. Where reference is made to the fee for the audit of the Financial Statements, this does not include any fee for an audit of Special Purpose Financial Statements or a review of Financial Statements.

...

AUST 410.29.1 A1 Firms should consider the following categories of services for making disclosures in relation to fees received or receivable for Professional Services provided to Audit Clients:

- (a) **Audit services** – which includes:
 - Audit Engagements and audits of Related Entities for Audit Clients that are Public Interest Entities;
 - Audit Engagements and audits of Related Entities for which the Audit Client has direct or indirect control; and
 - Review Engagements in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*.
- (b) **Audit-related services** – which are services provided by members of the Audit Team that is closely related to work performed for audit services in (a) above, such as:
 - Reporting required to be provided by the external auditor by laws or regulations;
 - Reviews of interim financial information;
 - Reporting on regulatory returns (for example, reporting to the Australian Prudential Regulation Authority, or the auditor’s report to ASIC on an Australian Financial Services licensee using Form FS 71);
 - Reporting to a regulator on client assets;
 - Reporting on government grants;
 - Reporting on internal financial controls when required by law or regulation; and
 - Additional audits or reviews performed on financial information and/or financial controls that have been authorised by Those Charged with Governance.
- (c) **Other assurance services** – comprise all Assurance Engagements other than (a) and (b) above. For example:
 - audit and other services relating to public reporting as a reporting or investigating accountant on financial or other information of the audited entity in an investment circular or prospectus;
 - services, including private reporting that are customarily performed by the reporting or investigating accountant to support statements and disclosures made by the directors, in a prospectus or investment circular or, to support confirmations provided by the sponsor or nominated advisor; and
 - audit and other assurance services relating to public reporting on other information issued by the entity, such as reports on information in the front of annual reports not covered by the auditor’s report on the financial statements.
- (d) **Taxation Services** – which comprises any Professional Activities performed by a Member relating to ascertaining a client’s tax liabilities or entitlements or satisfying their obligations under taxation law, provided under circumstances where they can reasonably expect to rely on the Professional Activities. This includes:
 - (i) preparation of a return, notice, statement, application or other document for lodgement with a revenue authority, and responding on behalf of a client to the revenue authority’s requests for further information;

<ul style="list-style-type: none"> (ii) Subject to the prohibition in paragraph R604.10, preparation of tax calculations to be used as the basis for the accounting entries in the financial statements; (iii) provision of tax planning and other tax advisory services; and (iv) assisting a client in the resolution of tax disputes; and (e) Other services – which comprise any service not covered in (a) – (d) above.

36. The category ‘fees for audit-related services’ may be the one where there is some disagreement about the name of the category (should it be called ‘audit-related’ or ‘assurance-related’) and what should be included (for example, should it focus on services that do not generally give rise to threats to independence)?
37. The APESB categories are not the only categories that the Board could consider. Table 7 shows some other options.

Table 7 Other options for fee categories

Options	Staff comments
FMA 2014 suggestions ¹² Audit of financial statements <ul style="list-style-type: none"> • Audit and review of financial statements Other services <ul style="list-style-type: none"> • Regulatory audit work • Other assurance services • Tax services • Other services 	This is one way of providing more detail about the ‘other services’ required by FRS-44. It is useful to contrast these suggestions with more recent requirements and proposals.
Categories considered at NZASB/NZAuASB joint meeting February 2020 <ul style="list-style-type: none"> • Assurance with a distinction between audit, review and other assurance • Audit-related services • Non-assurance services 	Still relevant. Recent Australian proposals have more categories, but the question is whether they give a sufficiently clear distinction between assurance and non-assurance services. NZAuASB ED (July 2021) gives examples of services that may not create a self-review threat.

Timing – when would be best?

38. If the Board decides to propose changes to audit fee disclosures, it will need to consider when the project work should begin and when to issue proposals. There is no easy answer to this.
39. On one hand the NZAuASB would like revised audit fee disclosures to be effective at the same time as the as the Revised NAS (and fees requirements) in the Code. The Code changes are effective for periods beginning on or after 1 December 2022. This would suggest an urgent need for consultation on changes to audit fee disclosures. However, if we issue an ED ahead of the AASB, there is a risk that the two sets of proposals will not be the same. This could lead to a permanent trans-Tasman difference or another exposure draft at some point.

¹² The 2014 FMA report highlighted concerns about the quality of disclosure of audit and non-audit fees and the lack of consistency and comparability between entities. The FMA was looking for a clearer breakdown of the ‘other services’ required by FRS-44.

40. On the other hand, the Board has requirements to consider trans-Tasman harmonisation¹³ and would generally look to align domestic disclosure proposals with Australian proposals. The AASB is waiting for the federal Government response to the PJC recommendations before it issues an ED. At this stage there is no indication when or if the federal Government will respond to the PJC recommendations.
41. The AASB will also be interested in feedback on the APESB fee disclosure proposals (which responded to PJC recommendation 3 for the FRC/AASB to introduce defined categories and associated fee disclosure requirements in relation to audit and non-audit services). If we wait for the AASB to issue an exposure draft the NZAuASB would either have to proceed to align with the IESBA fee-related changes without being able to refer to revised disclosure requirements in accounting standards, or it could wait for the Board to undertake due process on any changes to accounting standards.
42. Trans-Tasman harmonisation is more likely to be achieved if the NZASB and AASB consult on the same proposals at the same time. However, harmonisation is not assured, as the NZASB and AASB could receive different feedback from constituents and might need to consider different matters.
43. The expected changes to the assurance standards to reduce NAS that might create a self-review threat will arguably reduce the need for improved audit fee disclosures, because there will be fewer instances of auditors providing 'other services'. These restrictions are more stringent in relation to PIEs. However, accounting standards are also applied by entities that are not PIEs.
44. If the Board decides to propose changes to audit fee disclosures, staff will draft a project plan to reflect the Board's preferred timing. The following factors could affect the resources and time required.
 - (a) The NZAuASB's interest in revised audit fee disclosures being effective at the same time as the as the Revised NAS (and fees requirements) in the Code.
 - (b) AASB RR 2015 (December 2020) identified 11 issues that should be considered when developing definitions for audit and non-audit services fee disclosure requirements. These issues would need to be considered. For example, should disclosure of auditor remuneration for audit related services be further disaggregated into remuneration for: (1) audit related services that are impractical to be provided (or prohibited from being provided) by another auditor; and (2) audit-related services that could be reasonably performed by another auditor, with a description of the nature of the services?
 - (c) The level of agreement within Australia and New Zealand on the proposed categories.

¹³ The *Joint Statement of Intent: Single Economic Market Outcomes Framework* (August 2009) included an agreed trans-Tasman outcome "For -profit entities are able to use a single set of accounting standards and prepare only one set of financial statements."

The *Accounting Standards Framework* (Updated December 2015) says that the Tier 1 and Tier 2 Accounting Requirements will be harmonised with Australia as appropriate. However, the requirement to harmonise Tier 2 disclosures has been put on hold following the issuance of AASB 1060 which established new requirements for Tier 2 entities in Australia.

Questions for the Board

- Q1. Should we commence a domestic project to propose amendments to the disclosure of audit fees in NZ IFRS and PBE Standards?
(i.e. Is there a need to change the existing audit fee disclosures?)
- Q2. What is the best timing for this work and/or consulting on proposals?
- Should we wait for the AASB to issue an ED proposing amendments to AASB 1054?
 - Should we wait for the NZAuASB to complete its project on non-assurance services?¹⁴
- Q3. If you agree that we should commence a domestic project to propose amendments to the disclosure of audit fees, should these disclosures be aligned with the AASB/APESB proposals as outlined in [paragraph 22](#)?

Next steps

45. The next steps depend on what the Board wants and how quickly it wishes to proceed with developing any proposals.

¹⁴ ED 2021-4 – *Amendments to Professional and Ethical Standard 1: Non-Assurance Services*, closed for comment 31 October 2022. The NZAuASB is currently analysing submissions and considering next steps.

Appendix A Background information

This Appendix contains background information about audit fee disclosures, including discussions by standard-setting boards, EDs and changes to standards and codes.

Date	Discussion/event/document
1978–2003	<p>Accounting standards prior to adoption of NZ IFRS</p> <p>Audit fee disclosures in standards were based on the requirements in the Companies Act 1993 – which are the same as the Companies Act 2013. See FRS-9: Information to be Disclosed in Financial Statements (issued March 1995)</p> <p>6.13 The following items of expense shall be disclosed separately:</p> <p>...</p> <p>(e) fees paid to auditors, disclosing separately fees paid to:</p> <ul style="list-style-type: none"> * (i) each (if more than one) auditor of the parent entity for the audit of the financial report; * (ii) any other auditor(s) of entities in the group (not including the parent entity) for the audit of the financial report(s); * (iii) the auditor(s) of the parent entity for other services provided to group entities by the auditor(s) or entities related to the auditor(s); ...
2004	<p>Adoption of NZ IFRS</p> <p>There are no specific audit fee disclosure requirements in IFRS Standards so New Zealand-specific requirements were added to NZ IAS 1 <i>Presentation of Financial Statements</i>.</p> <p>The FRSB's initial proposals for audit fee disclosures were almost identical to those in FRS-9 and the Companies Act 1993.</p> <p>However, the audit fee disclosure requirements finally included in NZ IAS 1 (shown below) were more detailed than the proposals. The final requirements were influenced by (i) disclosures required by United States Securities and Exchange Commission (SEC) as a consequence of the Sarbanes-Oxley Act 2002 and (ii) the proposals in AASB 101 <i>Presentation of Financial Statements</i> (which at that time, was pending final approval).</p> <p>Feedback when FRS-44 <i>New Zealand Additional Disclosures</i> was developed in 2010/2011 indicated that some felt the requirements in NZ IAS 1 were too complex.</p> <p>NZ IAS 1 (2004)</p> <p>NZ 94.1. An entity shall disclose, either on the face of the income statement or in the notes, fees to auditors, disclosing separately fees to:</p> <ul style="list-style-type: none"> (a) each (if more than one) auditor of the parent entity for: <ul style="list-style-type: none"> (i) audit fees being fees for the audit of the financial statements; (ii) audit related fees being fees for assurance and related services that are reasonably related to the performance of the audit or review of the financial statements and are not reported under paragraph (a)(i). An entity shall describe the nature of the services comprising the fees disclosed under this category; (iii) tax fees being fees for tax compliance, tax advice, and tax planning services. An entity shall describe the nature of the services comprising the fees disclosed under this category; and (iv) all other fees being fees for services other than those reported in paragraphs (a)(i) through (a)(iii). An entity shall describe the nature of the services comprising the fees disclosed under this category; and (b) any other auditor(s) of entities in the group (not including the parent entity) for audit fees being fees for the audit of the financial statements.

Date	Discussion/event/document																														
2011	<p>FRS-44 issued</p> <p>Audit fee disclosures for for-profit entities were removed from NZ IAS 1 and included in FRS-44 <i>New Zealand Additional Disclosures</i>. The new requirements (shown below) were less detailed.</p> <p>*8.1 An entity shall disclose fees to each auditor or reviewer, including any network firm, separately for:</p> <ul style="list-style-type: none"> (a) the audit or review of the financial statements; and (b) all other services performed during the reporting period. <p>*8.2 For 8.1 (b) above, an entity shall describe the nature of other services.</p>																														
2013	<p>PBE Standards issued. Audit fee disclosure requirements in PBE IPSAS 1 <i>Presentation of Financial Statements</i> are almost identical to those in FRS-44.</p>																														
April 2014	<p>FMA report: <i>Disclosure of fees paid to auditors by listed issuers.</i></p> <p>This report highlighted concerns about the quality of disclosure of audit and non-audit fees and the lack of consistency and comparability between entities. The FMA found that the disclosure of fees paid to the external auditor was often unclear and not always in line with the requirements of FRS-44. The FMA expressed the view that in some cases the financial statements of issuers paying high fees for non-audit services would benefit from clearer disclosures regarding the other services provided. The FMA also commented on the usefulness of disclosures by certain entities in their annual reports which explained the process the audit committee followed in managing the relationship with the auditor.</p> <p>The FMA indicated that it expected to be able to analyse audit fees disclosed in accordance with FRS-44 into the following categories. It acknowledged that other ways of disclosing this information could achieve the same objective.</p> <table border="1" data-bbox="400 1106 1334 1509" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left;">Fees paid to auditor:</th> <th style="text-align: center;">Year</th> <th style="text-align: center;">Year</th> </tr> </thead> <tbody> <tr> <td colspan="3">Audit of financial statements</td> </tr> <tr> <td>Audit and review of financial statements (note x)</td> <td style="text-align: center;">xxx</td> <td style="text-align: center;">xxx</td> </tr> <tr> <td colspan="3">Other services</td> </tr> <tr> <td>Regulatory audit work (note x)</td> <td style="text-align: center;">xx</td> <td style="text-align: center;">xx</td> </tr> <tr> <td>Other assurance services (note x)</td> <td style="text-align: center;">xx</td> <td style="text-align: center;">xx</td> </tr> <tr> <td>Tax services (note x)</td> <td style="text-align: center;">xx</td> <td style="text-align: center;">xx</td> </tr> <tr> <td>Other services (note x)</td> <td style="text-align: center;">xx</td> <td style="text-align: center;">xx</td> </tr> <tr> <td>Total other services</td> <td style="text-align: center;">xxx</td> <td style="text-align: center;">xxx</td> </tr> <tr> <td>Total fees paid to auditor</td> <td style="text-align: center;">xxx</td> <td style="text-align: center;">xxx</td> </tr> </tbody> </table>	Fees paid to auditor:	Year	Year	Audit of financial statements			Audit and review of financial statements (note x)	xxx	xxx	Other services			Regulatory audit work (note x)	xx	xx	Other assurance services (note x)	xx	xx	Tax services (note x)	xx	xx	Other services (note x)	xx	xx	Total other services	xxx	xxx	Total fees paid to auditor	xxx	xxx
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June 2015	<p>FMA report: <i>Disclosure of fees paid to auditors by listed issuers</i></p> <p>The FMA observed a marked improvement in the quality of disclosure of fees paid to the external auditor. Of the sample reviewed, 84% were found to meet the disclosure requirements of FRS-44.</p>																														

Date	Discussion/event/document
2018	<p>2018 International Code of Ethics for Professional Accountants</p> <p>This Code, which is issued by IESBA, has been adopted in New Zealand.</p> <p>The Code itself does not establish public disclosure requirements. Rather, the accounting standard setters establish the disclosure requirements for the preparer and the International Auditing and Assurance Standards Board establishes what is disclosed in the auditor’s report.</p> <p>The Code includes a conceptual framework and revised examples of actions that might be safeguards to threats to compliance with the fundamental principles and to independence in the context of provision of NAS to an audit client and fee-related matters. The provision of other assurance services is not seen to threaten the auditor’s independence.</p> <p>The Code:</p> <ul style="list-style-type: none"> • requires a firm or network firm to identify whether providing a NAS to an audit client might create a threat to independence, then to evaluate the level of the threat created and how to address the threat before accepting an engagement to provide such a service. • provides guidance on considering the combined effect of threats created by providing multiple NAS to an audit client. • prohibits an audit firm from assuming a management responsibility for an audit client. • prevents certain types of NAS from being provided to public interest entities (in New Zealand, these are entities that must report using Tier 1 accounting standards). • requires that audit firms consider the size of the total fee from an audit client relative to the proportion of the total fee of any one particular partner or the office of the firm.
2018	<p>FMA: Corporate governance in New Zealand: Principles and guidelines</p> <p>The handbook (for directors, executives and advisers) expects that Boards will report on categories of audit work. See extracts from Principle 7 Auditors (page 23).</p> <p>7.5 Boards must prepare and file financial reports as required under relevant legislation. They should report to shareholders and stakeholders, once a year, on the fees paid to their audit firm. This report should differentiate between audit fees and fees for individually identified non-audit work (for example, separating each category of non-audit work, and disclosing the fees for this).</p> <p>7.6 Fee negotiations should be managed by the directors and/or the audit committee. They should not be delegated to the entity’s management.</p> <p>7.7 Boards should explain in their annual report the non-audit work their audit firm carried out, and why the work did not compromise auditor objectivity and independence. They should also explain:</p> <ul style="list-style-type: none"> • how they satisfied themselves about auditor quality and effectiveness of the audit • their approach to tenure and reappointment of auditors • any threats to auditor independence and how those threats were mitigated.
September 2019	<p>CA ANZ submission to the inquiry into the regulation of audit in Australia</p> <p>Suggested four categories of fee disclosures</p> <ul style="list-style-type: none"> • audit • assurance • audit related; and • non-audit related services.

Date	Discussion/event/document
September 2019	<p>EY's submission to the inquiry into the regulation of audit in Australia contained proposals for disclosure of audit and non-audit services</p> <ul style="list-style-type: none"> • Statutory audit fees Fees paid relating to the statutory financial statement audit and half-year review of any entity within the group, local and international. • Audit-related services Other audits or reporting that auditors are either required to undertake or are best placed to undertake under legislation, regulation or contract. These services are typically provided by the same audit partner and staff, and include regulatory audits, compliance plan audits, grant audits, covenant reporting to banks and associated entity audits. • Other assurance services This would include audits conducted in accordance with the assurance framework contained in Australian Auditing Standards (such as ISARs, sustainability reporting and agreed-upon procedures report) as well as other areas of assurance). • Non-audit-related (other) services Tax compliance services, consulting and other services permitted under the Corporations Act, APES 110, and Australian Auditing Standards.
November 2019	<p>FMA report: <i>Audit Quality Monitoring Report 2019</i></p> <p>The report included a section on auditor independence. The report suggested that directors and auditors should take perceived threats to independence into account when deciding whether or not to perform non-assurance services.</p>
2019	<p>ASIC guidance</p> <p>In 2019 Australian Securities and Investments Commission (ASIC) released guidance to audit firms to encourage ASX listed entities to disclose auditor remuneration in accordance with specific categories. ASIC said it would like to see auditors' remuneration disclosure split into the following categories:</p> <ol style="list-style-type: none"> a. Fees to the group auditor for: <ol style="list-style-type: none"> i. auditing the statutory financial report of the parent covering the group ii. auditing the statutory financial report of any controlled entities b. Fees for assurance services required by legislation to be provided by the auditor (e.g. for certain reporting to the Australian Prudential Regulation Authority, or for the auditor's report to ASIC on an Australian Financial services licensee using Form FS 71) c. Fees for other assurance services and agreed-upon procedures services under other legislation or contractual arrangements (e.g. assurance on revenue information relating to contingent rental in a lease agreement) where there is discretion as to whether the service is provided by the auditor or another firm, and d. Fees for other services (e.g. tax advice, tax compliance, consulting, etc.).
January 2020	<p>IESBA issued Fees ED</p> <p><i>Proposed revisions to the Fee-related Provisions of the Code</i></p> <p>Comments due 4 May 2020 (extended to 4 June 2020)</p> <p>The proposed revisions to the fee-related provisions of the code included:</p> <ul style="list-style-type: none"> • A prohibition on firms allowing the audit fee to be influenced by the provision of services other than audit to the audit client; • In the case of PIEs, a requirement to cease to act as auditor if fee dependency on the audit client continues beyond a specified period; and • Communication of fee-related information to TCWG and to the public to assist their judgments about auditor independence.

Date	Discussion/event/document
	<p>The Fees ED also included enhanced guidance on identifying, evaluating and addressing threats to independence in relation to other fee-related matters, including the proportion of fees for services other than audit to the audit fee.</p> <p><i>These proposals were finalised in April 2021.</i></p>
<p>January 2020</p>	<p>IESBA issued NAS ED <i>Proposed Revisions to the Non-Assurance Services Provisions of the Code</i> Comments due 4 May 2020 (extended to 4 June 2020)</p> <p>The proposed revisions to the non-assurance services provisions of the code include:</p> <ul style="list-style-type: none"> • A prohibition on providing NAS to an audit client that is a public interest entity (PIE) if a self-review threat to independence will be created; • Further tightening of the circumstances in which materiality may be considered in determining the permissibility of a NAS; • Strengthened provisions regarding auditor communication with TCWG, including, for PIEs, a requirement for NAS pre-approval by TCWG; and • Stricter requirements regarding the provision of some NAS, including certain tax and corporate finance advice. <p>The NAS ED also includes enhanced guidance to assist firms in evaluating the level of threats to independence when providing NAS to audit clients.</p> <p><i>These proposals were finalised in April 2021.</i></p>
<p>February 2020</p>	<p>Joint NZASB and NZAuASB meeting Item 4.1</p> <ul style="list-style-type: none"> • The purpose of the item was to explore the need for information related to fees paid to the auditor and whether and/how to improve consistency and transparency of information regarding fees paid to the auditor in the current environment. • Staff suggested that the following fee categories could place more emphasis on assurance versus non-assurance services. <ul style="list-style-type: none"> ○ Assurance with a distinction between audit, review and other assurance ○ Audit-related services ○ Non-assurance services • The Boards generally supported the need to clarify and improve the current disclosure requirements of fees paid for audit services, assurance services, and other services <ul style="list-style-type: none"> ○ To align with terminology in the assurance standards ○ To clarify the distinction between the various services provided by audit firms ○ To promote best practice disclosure in New Zealand ○ To address the definitional issues identified (e.g. audit related services) • The Boards also noted the consideration of this issue in Australia and note the importance of the AASB and NZASB working together to reach a solution.
<p>February 2020</p>	<p>PJC Interim Report Parliamentary Joint Committee on Corporations and Financial Services (PJC) issued <i>Regulation of Auditing in Australia: Interim Report</i>. link</p> <p>The report examined two main issues persistently identified as threats to auditor independence, being:</p> <ul style="list-style-type: none"> • the provision of non-audit services; and • the perceived closeness of the auditor with the audited entity. <p>To address these issues, the report recommended improving transparency of the remuneration received by auditors for non-audit services.</p>

Date	Discussion/event/document
	<p>Paragraphs 4.92 and 4.117 of the report noted the following concerns in relation to audit fee disclosures:</p> <ul style="list-style-type: none"> • there are no industry-wide definitions of the non-audit services an auditor may perform. Entities therefore develop their own criteria as to what constitutes the different categories of services (for example, audit-related or other assurance services), which has led to inconsistencies in reporting; and • whether longer individual auditor or audit firm tenure could lead to an over-familiarity and, in turn, an erosion of professional scepticism necessary to perform high-quality audits. <p>Industry stakeholders were of the broad view that the market would benefit from clearly and consistently defined categories and associated fee disclosure of non-audit services.</p> <p>The PJC recommendations were finalised in November 2020 (shown below).</p>
March 2020	<p>AASB 1060 – Tier 2 entities must disclose audit fees</p> <p>AASB issued AASB 1060 <i>General Purpose Financial Statements –Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities</i>.</p> <p>It requires that Tier 2 entities comply with the same audit fee disclosures as Tier 1 entities. By contrast, FRS-44 and PBE IPSAS 1 have an RDR concession for audit fees.</p>
March 2020	<p>Auditor General’s revised Code of Ethics</p> <p>The Code sets limits on the provision of additional work, over and above the work that is required or permitted to be carried out on behalf of the Auditor-General. Such work is limited to “work of an assurance nature”. That is said to include:</p> <ul style="list-style-type: none"> • engagements that involve the formal expression of an opinion; • agreed-upon procedures engagements; • real-time independent quality assurance; • probity engagements; and • activities involving the examination, investigation or inquiry into matters of concern. <p>All other types of NAS engagement are effectively prohibited.</p>
June 2020	<p>NZAuASB comments on IESBA Fees ED</p> <p><i>Extracts from the NZAuASB’s comment letter follow</i></p> <p>In general, the NZAuASB supports the proposals, however, while the NZAuASB is supportive of the objective of transparency of fee-related information, it is concerned that the proposal to require fee-related disclosures other than by the professional accountant is beyond the mandate of the IESBA. In this regard, the NZAuASB encourages the IESBA to pursue a solution through the International Accounting Standards Board. It is the view of the NZAuASB that disclosure of financial information is management’s responsibility and should not be imposed on the auditor through the Code.</p> <p><i>Comments on Question 11</i></p> <p>11. Do you support the proposed requirement in paragraph R410.25 regarding public disclosure of fee-related information for a PIE audit client? In particular, having regard to the objective of the requirement and taking into account the related application material, do you have views about the operability of the proposal?</p> <p>Response:</p> <p>While the NZAuASB supports public disclosure of fee-related information, the NZAuASB has a number of concerns about the proposed requirement in paragraph R410.25.</p> <p>The NZAuASB is concerned that a requirement to disclose fee related information extends beyond the mandate of the IESBA. Disclosure of financial information is the responsibility of the preparer of financial statements, not the auditor. In New Zealand, FRS 44 requires disclosure of the audit or review fee, and fees for all other services performed during the reporting period. In addition, the entity is required to describe the nature of other services.</p>

Date	Discussion/event/document
	<p>We urge the IESBA to work with the International Accounting Standards Board to enhance the transparency of fee-related information through enhanced disclosure by the entity.</p> <p>The requirement is for the firm to be satisfied that the information is publicly disclosed in a timely and accessible manner. There is no consistent location for this information to be disclosed. The guidance indicates, if the information is disclosed by the entity, it could be in the financial statements, annual report or proxy statement. If disclosed by the firm, such information might be disclosed by the firm in a manner deemed appropriate for the circumstances. Not having the information available in a consistent location, for example, the entity's financial statements, will make it difficult for users to find, and consequently, reduce its usefulness.</p> <p>Further, if there is a conflict between the requirements of the financial reporting framework and the requirements in R410.25, which will prevail? It is not desirable for the auditor to be required to disclose information that the entity itself is not required to disclose in accordance with the applicable financial reporting framework.</p> <p>The objective of providing fee-related disclosures is so that the users of the information can make their own determinations about the independence of the auditor. The ability to make good decisions depends on the decision usefulness of the information presented. The NZAuASB considers that more granular disclosures are necessary. Comparing the audit fee to all fees from the client does not give a clear picture as the auditor often provides additional services, that require independence and an audit level of knowledge, for example, the audit of regulatory reports required by the regulator. These "audit related" services need to be considered separately from other services. Additionally, it may also be useful to disclose fees paid to other professional accountants for both assurance and non-assurance services.</p> <p>Such information would then give a fuller picture of the total spend by the entity for assurance and non-assurance services and where any other close relationships might be.</p> <p><i>Comments on Question 12</i></p> <p>12. Do you have views or suggestions as to what the IESBA should consider as:</p> <ul style="list-style-type: none"> a) Possible other ways to achieve transparency of fee-related information for PIE audit clients; and b) Information to be disclosed to TCWG and to the public to assist them in their judgements and assessments about the firm's independence? <p>Response:</p> <p>Public transparency of fee-related information is important as it allows users to form their own conclusions as to independence. However, as noted in response to the preceding question, the NZAuASB considers that it is important to distinguish between fees for audit/assurance and related services from fees for other services, as well as fees paid to other firms for assurance and non-assurances services.</p> <p>The ability of users to make decisions depends on the "decision usefulness" of the information presented. Fuller disclosures provide for better decision making.</p> <p>It is good governance practice for those charged with governance to be aware of the services the auditor performs for the entity. The NZAuASB is also of the view that it is the responsibility of management, rather than the auditor, to provide such information to those charged with governance.</p>

Date	Discussion/event/document
July 2020	<p>AASB’s User Advisory Committee survey</p> <p>The UAC completed an AASB staff survey about what information relating to audit remuneration users would find useful and why.</p> <p>Key points</p> <ul style="list-style-type: none"> • 87.5% of UAC members agreed there is need for an increase in transparency regarding total remuneration paid to auditors, while 12.5% disagreed. • 42.86% of UAC members preferred the most extensive level of disclosures of auditor remuneration. • 50% of UAC members were of the view that only for-profit entities should be required to disclose this level of auditor remuneration. • 87.5% of UAC members agreed information regarding auditor tenure and firm rotation would be beneficial, while 12.5% disagreed.
November 2020	<p>FMA Audit Quality Monitoring Report 2020</p> <p>The section on auditor independence included the following comments.</p> <ul style="list-style-type: none"> • ...the level of non-assurance services compared to audit services is relatively low, and the proportion of fees charged by audit firms related to non-assurance services, remained at 16%. • We will continue to review independence for each audit file and extend our research into the level of non-assurance services audit firms provide to their clients. We will also increase our engagement with FMC reporting entities about concerns of auditor non-compliance with independence requirements, and areas where directors could help improve this compliance.
November 2020	<p>PJC Final Report</p> <p>The Australia Parliamentary Joint Committee (PJC) issued its report, <i>Regulation of Auditing in Australia</i>. The report highlighted two main issues of relevance to auditor independence:</p> <ul style="list-style-type: none"> • the perceived closeness of the auditor with the audited entity; and • the provision of non-audit services. <p>The report contained 10 recommendations, three of which related to auditor tenure and auditor remuneration (see below). The federal Government may formally respond to the PJC recommendations but, as at the time of writing (November 2021), it has not done so.</p> <p>Recommendation 3 (disclose auditor remuneration)</p> <p>The committee recommended that the Financial Reporting Council, in partnership with ASIC, by the end of the 2020–21 financial year, oversee consultation, development and introduction under Australian standards of:</p> <ul style="list-style-type: none"> • defined categories and associated fee disclosure requirements in relation to audit and non-audit services; and • a list of non-audit services that audit firms are explicitly prohibited from providing to an audited entity. <p>Recommendation 6 (disclose tenure)</p> <p>The committee recommended that the FRC, by the end of the 2020–21 financial year, oversee the revision and implementation of Australian standards to require audited entities to disclose auditor tenure in annual financial reports. Such disclosures should include both the length of tenure of the entity’s external auditor, and of the lead audit partner.</p> <p>Recommendation 7 (disclose why no public tender)</p> <p>Audited entities that have not undertaken a public tender process in the last 10 years should explain why this has not occurred.</p>

Date	Discussion/event/document
December 2020	<p>AASB Research Report 15 <i>Review of Auditor Remuneration Disclosure Requirements</i></p> <p>The report compared Australian and selected overseas jurisdictions' auditor remuneration disclosure requirements and identified factors that could be considered in implementing the PJC's recommendations on the audit and [allowed] non-audit services fee disclosure requirements. The report was intended to form the basis for the AASB working collaboratively with regulators, other standard setters, users, preparers and other stakeholders to reach a clear, effective, broadly accepted and improved framework for financial reporting (and assurance) in Australia in respect of auditor remuneration disclosures.</p> <p>The jurisdictions considered included Canada, Germany, Hong Kong, New Zealand, Singapore, South Africa, the United Kingdom (UK) and the United States (US).</p> <p>Without reaching a conclusion, AASB Research Report 15 suggested:</p> <ul style="list-style-type: none"> • Continue requiring disclosure of remuneration for 'audit services' in financial statements, and provide a definition thereof; and • Specify categories of the allowed 'non-audit services' and related remuneration that are required to be separately disclosed in financial statements, particularly by larger entities, namely: <ul style="list-style-type: none"> - audit-related services plus a description of the nature of the services (no further breakdown proposed unless shown to be cost beneficial); - taxation services (possibly with further breakdown into tax compliance and other tax services); - other assurance services plus a description of the nature of the services (no further breakdown proposed unless shown to be cost beneficial); - all other non-audit services plus a description of the nature of the significant services. <p>The report also identified 11 issues that should be considered when developing definitions for audit and non-audit services fee disclosure requirements.</p> <ol style="list-style-type: none"> 1. Given the AASB's deliberations on auditor remuneration requirements in 2010 (and the 2003 Corporate Law Economic Reform Program that resulted in auditor remuneration requirements in the Corporations Act), is it timely to review them now with the prospect of making them more prescriptive by, for example, requiring separate disclosure of the nature and amount of remuneration for specified categories of allowed non-audit services provided by the auditor? 2. Should a definition (or a defined scope) be developed for 'audit services'? 3. Should there be different Australian auditor remuneration disclosure requirements applicable to different types of entities? If so, how should the different types of entities be distinguished? 4. Should the scope of audit-related services be clarified and should auditor remuneration for audit-related services be required to be separately disclosed together with a description of the nature of the services? 5. Should disclosure of auditor remuneration for audit related services be further disaggregated into remuneration for: (1) audit related services that are impractical to be provided (or prohibited from being provided) by another auditor; and (2) audit-related services that could be reasonably performed by another auditor, with a description of the nature of the services? 6. Should auditor remuneration for taxation services be required to be separately disclosed with a description of the nature of the services? 7. Should disclosure of auditor remuneration for taxation services be further disaggregated into remuneration for (1) 'tax compliance services' (i.e. tax return preparation) and (2) 'other tax services' with a description of the nature of the services?

Date	Discussion/event/document
	<p>8. Should auditor remuneration for other assurance services be required to be separately disclosed with a description of the nature of the services?</p> <p>9. Should disclosure of remuneration for other assurance services be further disaggregated into remuneration for: (1) other assurance services performed due to a regulatory or contractual obligation; and (2) other assurance services performed at the discretion of the entity with a description of the nature of the services?</p> <p>10. Should auditor remuneration for internal audit services be required to be separately disclosed with a description of the nature of the services?</p> <p>11. Should auditor remuneration for each of the other non-audit services not considered above be required to be separately disclosed, together with a description of their nature?</p>
January 2021	<p>IESBA issues ED on Definitions Listed Entity and PIE</p> <p>Comments due 3 May 2021</p> <p>The IESBA proposes to broaden the definition of a PIE. The definition of a PIE has implications for the scope of permissible NAS.</p> <p>Among other matters, the proposed revisions:</p> <ul style="list-style-type: none"> • Introduce an overarching objective for additional requirements to enhance confidence in the audit of financial statements of PIEs. • Provide guidance on factors to consider when determining the level of public interest in an entity. • Broaden the definition of PIE to additional categories of entities. • Replace the term 'listed entity' with the term 'publicly traded entity' and redefine that PIE category. • Introduce new requirements for firms to determine if additional entities should be treated as PIEs for independence purposes and to publicly disclose if an audit client was treated as a PIE. • Recognise and encourage local regulators to refine PIE categories in regard to national conditions.
February 2021	<p>AASB Meeting: Item 11 Auditor Remuneration Disclosures</p> <p>Meeting held 24–25 February.</p> <p>Note: This topic was considered again in June. In June the AASB agreed to wait for the government response to the PJC Inquiry recommendations before issuing an ED.</p> <p>The February memo:</p> <ul style="list-style-type: none"> • noted the PJC report (November 2020) • noted the AASB's Research Report 15 <i>Auditor Remuneration</i> (December 2020) • noted ASIC's 2019 views • noted that many larger audit firms have already encouraged the categorisation suggested by ASIC or suggested changes to address PJC concerns. • sought the AASB's views on a project to review auditor remuneration disclosures in AASB 1054 as well as other options for influencing the IASB. <p>The AASB directed staff to begin work on drafting revised auditor remuneration disclosures based on the categories proposed in AASB Research Report 15, subject to consideration of APESB proposals and other outreach and research activities. The timing of the ED will be considered once the International Ethics Standards Board for Accountants (IESBA) finalises its projects on fees and non-assurance services and the Australian federal Government responds to the PJC recommendations.</p> <p>Staff agreed to undertake further research on disclosures about auditor tenure and consult with the Auditing and Assurance Standards Board (AUASB) as to whether such disclosures would be better addressed in auditing standards.</p>
February 2021	<p>Joint NZASB/NZAuASB meeting</p>

Date	Discussion/event/document
	<p>Agenda Item 4: Non-assurance Services</p> <p>Audit and assurance staff presented on the IESBA’s changes to the international Code of Ethics on non-assurance services to public interest entities, which include a prohibition on services where a self-review threat exists, but also the importance of considering other threats such as familiarity and advocacy.</p> <p>The Joint Boards discussed the implications of these changes for disclosure, and commented, in particular, on costs, the role of the regulator and more education needed on this topic.</p> <p>Agenda Item 5: Audit Fee Disclosure</p> <p>The joint Boards received an update on the ongoing projects in Australia and New Zealand to improve the disclosure of audit fees.</p> <p>The Boards received an overview of:</p> <ul style="list-style-type: none"> • the Australian Parliamentary Joint Committee Report (PJC) <i>Regulation of Auditing in Australia</i>; and • AASB Research Report 15 <i>Review of Auditor Remuneration Disclosures</i> <p>The Boards noted the IESBA’s recent decisions on changes to the Code of Ethics regarding fee dependency and fee disclosure by firms.</p> <p>The Boards were asked to discuss:</p> <ul style="list-style-type: none"> • the categories proposed in AASB Research Report 15; • how well the distinction between ‘audit services’, ‘audit-related services’, and ‘other assurance services’ is understood in New Zealand; • whether any definitions and/or guidance would be needed to ensure the consistent use of these proposed categories; and • whether to keep the Tier 2 RDR concession for disclosure of audit fees until a detailed review of RDR is undertaken.¹⁵ <p>The Boards noted that the distinction between categories of services provided by audit firms is unclear.</p> <p>The Boards agreed that the NZASB should continue working closely with the AASB.</p>
April 2021	<p>IESBA issues Revisions to the Non-Assurance Services Provisions of the Code</p> <p>The revised NAS provisions contain substantive revisions that will enhance the International Independence Standards by clarifying and addressing the circumstances in which firms and network firms may or may not provide a NAS to an audit or assurance client. The revised provisions expressly prohibit firms and network firms from providing certain types of NAS to their audit clients, especially when they are public interest entities (PIEs).</p> <p>Key elements of the revised NAS provisions include:</p> <ul style="list-style-type: none"> • A prohibition on the provision of a NAS to an audit client that is a PIE* where that service <i>might</i> create a self-review threat to the firm’s independence) even if there is only a mere possibility of a self-review threat occurring). • New provisions to strengthen and improve the quality of firm communication with those charged with governance about NAS-related matters, including the firm’s independence. • Strengthened provisions to assist firms in addressing threats to independence that are created by the provision of NAS to audit clients that are not PIEs, including new application material in relation to situations where a safeguard is not available. • Enhanced guidance to explain that materiality is not relevant in evaluating whether a self-review threat might be created. <p>Firms and network firms can continue providing NAS to audit clients that are non-PIEs provided that any identified self-review threat is reduced to an acceptable level in accordance with the conceptual framework.</p>

¹⁵ No decision on the Tier 2 RDR concession was made at this time.

Date	Discussion/event/document
	<p>* For the purposes of Professional and Ethical Standard (PES) 1, a public interest entity is defined as any entity that meets the Tier 1 criteria in accordance with XRB A1 <i>Application of the Accounting Standards Framework</i> and is not eligible to report in accordance with the accounting requirements of another tier.</p>
<p>April 2021</p>	<p>IESBA issues Revisions to the Fee-related Provisions of the Code</p> <p>The revisions to the fee-related provisions of the Code include:</p> <ul style="list-style-type: none"> • a prohibition on firms allowing the audit fee to be influenced by the provision of services other than audit to the audit client; • in the case of PIEs, a requirement to cease to act as auditor if fee dependency on the audit client continues beyond a specified period; • communication of fee-related information to those charged with governance of an entity and to the public to assist their judgments about auditor independence; and • enhanced guidance on identifying, evaluating and addressing threats to independence. <p>With respect to fees for audit clients that are PIEs, the pronouncement requires (NB: this is summarised):</p> <ul style="list-style-type: none"> • disclosure of information <i>to those charged with governance</i> about audit fees, fees for other services, and fee dependency • in the absence of specific requirements to disclose fee information to <i>stakeholders</i>, that the firm discuss with the PIE the benefits of such disclosure and the information that might enhance the users' understanding of the fees paid or payable and their impact on the firm's independence • if a <i>PIE</i> doesn't disclose information about fees to stakeholders, that the <i>audit firm</i> publicly disclose: <ul style="list-style-type: none"> (a) Fees paid or payable to the firm and network firms for the audit of the financial statements on which the firm expresses an opinion; (b) Fees, other than those disclosed under (a), charged to the client for the provision of services by the firm or a network firm during the period covered by the financial statements on which the firm expresses an opinion. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the financial statements on which the firm will express an opinion; (c) Any fees, other than those disclosed under (a) and (b), charged to any other related entities over which the audit client has direct or indirect control for the provision of services by the firm or a network firm when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm's independence; and (d) If applicable, the fact that the total fees received by the firm from the audit client represent, or are likely to represent, more than 15% of the total fees received by the firm for two consecutive years, and the year that this situation first arose. <p>The auditor decides <i>where</i> to disclose such information. Suggestions include on a website, in a transparency report, in an audit quality report, in targeted communication to stakeholders or in the auditor's report.</p>
<p>April 2021</p>	<p>XRB survey</p> <p>XRB staff undertook a survey in April 2021, to gain a better understanding of the impact of the provision of NAS on users' perceptions of the auditor's independence. The survey results indicated that the provision of NAS by the auditor to their client has some negative effect for nearly all types of NAS provided. Tax-related NAS tend to have an especially negative effect on users' perceptions.</p> <p>The NZAuASB also consulted the XRB's advisory panel (the External Reporting Advisory Panel). It received feedback, particularly from the governance members of the panel that, while external perceptions are important, it is also important not to exclude the possibility of the</p>

Date	Discussion/event/document
	entity deriving benefit from additional services that are best provided by the auditor without compromising the firm's independence.
May 2021	<p>APESB ED proposes changes to fee-related provisions in the Code (link)</p> <p>Exposure Draft ED 03/21: <i>Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants</i> (including Independence Standards)</p> <p>Issued: May 2021.</p> <p>Comments due: 31 August 2021</p> <p>The ED proposed to:</p> <ul style="list-style-type: none"> • incorporate the changes made by IESBA to the <i>International Code of Ethics for Professional Accountants</i> (including International Independence Standards). These amendments seek to enhance the fee-related provisions of the Code; and • address key recommendation from the PJC Inquiry by: <ul style="list-style-type: none"> ○ providing information on the different categories of services that may be provided by an auditor (which will assist in determining disclosures required under Australian Accounting Standards suggested in recommendation 3 of the PJC Inquiry); and ○ broadening the extant prohibition on audit partners being incentivised, either directly or indirectly for selling non-assurance services to their audit clients to now prohibit incentivisation for sales of non-assurance services to all audit clients of the Firm (as per recommendation 5 of the PJC Inquiry). <p>The fee categories proposed in the APESB ED (shown below) are similar to those proposed by ASIC in 2019. Paragraph 410.3 A3 is shown for context.</p> <p>410.3 A3. For the purposes of this section, audit fees comprise fees or other types of remuneration for an audit or review of Financial Statements. Where reference is made to the fee for the audit of the Financial Statements, this does not include any fee for an audit of Special Purpose Financial Statements or a review of Financial Statements.</p> <p>...</p> <p>AUST 410.29.1 A1 Firms should consider the following categories of services for making disclosures in relation to fees received or receivable for Professional Services provided to Audit Clients:</p> <p>(a) Audit services – which includes:</p> <ul style="list-style-type: none"> • Audit Engagements and audits of Related Entities for Audit Clients that are Public Interest Entities; • Audit Engagements and audits of Related Entities for which the Audit Client has direct or indirect control; and • Review Engagements in accordance with ASRE 2410 <i>Review of a Financial Report Performed by the Independent Auditor of the Entity</i>. <p>(b) Audit-related services – which are services provided by members of the Audit Team that is closely related to work performed for audit services in (a) above, such as:</p> <ul style="list-style-type: none"> • Reporting required to be provided by the external auditor by laws or regulations; • Reviews of interim financial information; • Reporting on regulatory returns (for example, reporting to the Australian Prudential Regulation Authority, or the auditor's report to ASIC on an Australian Financial Services licensee using Form FS 71); • Reporting to a regulator on client assets; • Reporting on government grants; • Reporting on internal financial controls when required by law or regulation; and

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	<ul style="list-style-type: none"> • Additional audits or reviews performed on financial information and/or financial controls that have been authorised by Those Charged with Governance. <p>(c) Other assurance services – comprise all Assurance Engagements other than (a) and (b) above. For example:</p> <ul style="list-style-type: none"> • audit and other services relating to public reporting as a reporting or investigating accountant on financial or other information of the audited entity in an investment circular or prospectus; • services, including private reporting that are customarily performed by the reporting or investigating accountant to support statements and disclosures made by the directors, in a prospectus or investment circular or, to support confirmations provided by the sponsor or nominated advisor; and • audit and other assurance services relating to public reporting on other information issued by the entity, such as reports on information in the front of annual reports not covered by the auditor’s report on the financial statements. <p>(d) Taxation Services – which comprises any Professional Activities performed by a Member relating to ascertaining a client’s tax liabilities or entitlements or satisfying their obligations under taxation law, provided under circumstances where they can reasonably expect to rely on the Professional Activities. This includes:</p> <ul style="list-style-type: none"> (i) preparation of a return, notice, statement, application or other document for lodgement with a revenue authority, and responding on behalf of a client to the revenue authority’s requests for further information; (ii) Subject to the prohibition in paragraph R604.10, preparation of tax calculations to be used as the basis for the accounting entries in the financial statements; (iii) provision of tax planning and other tax advisory services; and (iv) assisting a client in the resolution of tax disputes; and <p>(e) Other services – which comprise any service not covered in (a) – (d) above.</p>
June 2021	<p>AASB Item 9 Audit Engagement-related Disclosures</p> <p>The AASB (21–22 June) received an update on related projects and discussions, including recent meetings with the AUASB, ASIC, CA ANZ, CPA, Australian Institute of Company Directors and APESB.</p> <p>The AASB discussed options for disclosing audit tenure (PJC recommendation 6) and auditor remuneration (PJC recommendation 3).</p> <p>Re audit tenure</p> <p>The papers contained an analysis of:</p> <ul style="list-style-type: none"> • where the auditor tenure information would be disclosed [the options were the financial statements or the directors’ report] • which entities would be required to disclose the information [options included entities required to prepared financial statements in accordance with Australian Accounting Standards, entities required to prepare financial reports under Chapter 2M.3 of the Corporations Act 2001, listed entities and <i>large</i> listed entities]; and • potential timing for implementation of proposed amendments [changes to legislation would take longer than developing requirements for accounting standards]. <p>The AASB noted that that the Australian Institute of Company Directors (AICD) plans to develop voluntary guidance for directors on disclosing information about audit tenure. It also</p>

Date	Discussion/event/document
	<p>noted that the AICD intends to seek incorporation of the guidance into the ASX Corporate Governance Principles at a later date.</p> <p>After considering the options available and the work undertaken by other bodies, the AASB decided not to propose amendments to Australian Accounting Standards to require auditor tenure disclosure at this stage but to continue to monitor the work being carried out by the AICD in respect of listed entities.</p> <p>Re auditor remuneration</p> <p>The AASB considered a comparison of audit and non-audit service categories recommended by AASB Research Report 15 with those suggested by ASIC and those proposed in the APESB ED (issued May 2021).</p> <p>The AASB acknowledged that the APESB May 2021 ED on fee-related provisions defines the services within each category, but noted that APES 110 (the Code of Ethics) <i>provides guidance</i> rather than mandatory requirements. The AASB decided that AASB 1054 should define the services included in each category. The AASB also decided to comment on the APESB ED and to liaise with the APESB in developing the disclosure proposals.</p> <p>The AASB indicated that it intends to wait for the government response to the PJC Inquiry recommendations before issuing an ED. In the interim, the AASB will continue deliberating the proposals to amend AASB 1054.</p>

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June 2021	<p>KPMG (Australia) Reporting Update</p> <p>Auditor Tenure and Auditor Fee Disclosures</p> <ul style="list-style-type: none"> Discusses the recommendations in the PJC report (issued November 2020) Discusses possible/expected responses to the PJC recommendations <ul style="list-style-type: none"> The Australian Institute of Company Directors plans to issue guidance in 2022 for directors on (voluntarily) disclosing information on audit tenure Notes the APESB ED (issued May 2021) Notes that the AASB plans to develop an ED to enhance auditor remuneration disclosures Notes current Australian requirements: legislation, auditing standards and the APES 110 Code of Ethics <p>Re auditor tenure</p> <ul style="list-style-type: none"> Expresses the view that it would be logical to disclose information about auditor tenure in the directors' report Contains example illustrative disclosures of auditor tenure <p>Re auditor fee disclosures</p> <ul style="list-style-type: none"> Notes Australian legislative requirements <ul style="list-style-type: none"> for auditors to make a statutory declaration about independence, which is then appended to the directors' report for directors to make disclosures/ statements about audit fees and non-audit services <i>in the directors' report</i> Notes fee disclosure requirements in AASB 1054 Notes that in 2019 ASIC released guidance to audit firms to encourage entities to disclose auditor remuneration in accordance with specific categories. The KPMG Example Public Company Limited Financial Report (see extract below) illustrates ASIC's categorisation. <p>Appendix 1 – Auditor fee illustrative disclosures</p> <table border="1" data-bbox="513 1205 1326 1827"> <thead> <tr> <th colspan="3" data-bbox="521 1216 1318 1279">Notes to the consolidated financial statements (continued)</th> </tr> <tr> <th data-bbox="521 1279 1082 1308">48. 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Date	Discussion/event/document
July 2021	<p>NZAuASB issues ED 2021-4 on NAS</p> <p>Comments on the ED closed on 31 October 2021</p> <p>The ED <i>Amendments to Professional and Ethical Standard 1: Non-Assurance Services</i> proposed to adopt the revised IESBA provisions (issued April 2021) regarding the prohibition of NAS to PIEs.</p> <p>In addition, the ED proposed other changes including:</p> <ul style="list-style-type: none"> • prohibiting the provision of tax advisory and tax planning services to an audit client that is a PIE and modifying/ strengthening the IESBA Code discussion of self-review threat from tax advisory and tax planning services. • application material to acknowledge that some services do not generally create a self-review threat to independence, although they may create other threats that need to be considered (see extract below). <p>The ITC stated that the NZAuASB expects to adopt the revised IESBA fee provisions in New Zealand at a later date, with a cross reference to the New Zealand disclosure requirements.</p> <p>Extract from ED</p> <p>NZ600.14 A1 Additional work performed by the firm will not generally create a self-review threat to independence when such work is related to the audit or review engagement. Examples of audit or review related engagements include:</p> <ul style="list-style-type: none"> • Engagements required by law or regulation to be performed by the auditor or assurance practitioner. • Engagements that involve the formal expression of an assurance opinion or conclusion. • Engagements to perform agreed-upon procedures. <p>However, providing such additional services might create one or more other threats, as noted in paragraph 120.6 A4. In such circumstances, the firm is required to apply the conceptual framework to identify, evaluate and address the threats to independence.</p>
November 2021	<p>FMA Audit Quality Monitoring Report 2021</p> <p>No specific comments on audit fee disclosures.</p>
November 2021	<p>Accountancy Europe briefing paper (link)</p> <p><i>Non-audit services and auditor's independence</i></p> <p>The briefing paper provides an overview of the measures that ensure auditors' independence while providing other assurance services to the companies they audit.</p> <p>The paper is intended to contribute to the ongoing debate at both European and national levels (about auditors providing other services to audit clients). Specifically, it:</p> <ul style="list-style-type: none"> • communicates the strict measures already in place to ensure that auditors do not provide any service that compromises their independence • describes the reasons why auditors are requested or required to provide other assurance services • provides examples of services for which there is a public interest (i.e., benefits to shareholders and other stakeholders) in an auditor's involvement. <p>It details how auditor's independence is maintained through:</p> <ul style="list-style-type: none"> • legal restrictions and ethical requirements • public oversight and audit committee scrutiny • transparency of fee-related information. <p>Extracts from contents of the paper</p> <p>Measures in place to ensure auditor's independence</p> <p>Auditors are already prohibited from providing many non-audit services Independent public authorities oversee the audit profession Audit committees scrutinise auditor's independence</p>

Date	Discussion/event/document
	<p>Audit firms have comprehensive policies around independence</p> <p>Auditors and other assurance services</p> <p>Fee-related information is transparently disclosed</p> <ol style="list-style-type: none">1. Why are auditors the ones to provide other assurance services to their audit clients? The service is closely linked to the financial statements audit2. An independent service provider's involvement is required by legislation3. Stakeholders take comfort in auditor's involvement

Date: 3 December 2021
To: NZASB Members
From: Anthony Heffernan
Subject: XRB A1 Definition of Public Accountability

Purpose and introduction¹

1. The purpose of this memo is to receive Board DIRECTION on how we should respond to issues identified concerning the definition of public accountability in XRB A1 *Application of the Accounting Standards Framework* (XRB A1).
2. The definition of public accountability as used in XRB A1 is a key element in determining an entity's reporting tier when preparing general purpose financial reports in accordance with GAAP². All for-profit and PBE reporting entities are required to apply Tier 1 reporting requirements if they have public accountability (as defined) at any time during the reporting period – regardless of any other considerations, including size.³
3. The definition of public accountability is also important for determining when a reporting entity is classified as a Public Interest Entity (PIE) for audit and assurance purposes. A PIE in New Zealand is defined as any entity that meets the Tier 1 reporting criteria in XRB A1.⁴ Auditors of PIEs have additional independence requirements.
4. We have received feedback that applying the XRB A1 definition of public accountability is causing some application issues in practice. We have also received feedback from NZAuASB staff that an increasing number of audit practitioners are expressing concerns that the current definition of public accountability is too broad (i.e. concerns that too many entities are being classified as PIEs).
5. Through subsequent discussions with the XRB's Accounting Technical Reference Group (TRG) and other practitioners, we have received feedback that the application issues are not considered pervasive. However, we continue to receive feedback from individual practitioners that the XRB A1 definition of public accountability is causing application issues for certain types of entities – specifically securities brokers/dealers and fund managers.
6. The memo provides background information on the XRB A1 definition of public accountability, explains the application issues arising in practice and other related concerns, and explores possible standard-setting responses.

¹ This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

² Generally accepted accounting practice (GAAP) comprises of accounting standards issues by the XRB, and authoritative notices issued by the XRB.

³ XRB A1, paragraph 17 and 37.

⁴ Professional and Ethical Standards 1 (PES 1).

Recommendations

7. The recommendations below are supported and explained within the content of this memo.
8. The Board is asked to provide DIRECTION on the possible standard-setting response to the interpretation issues and other related concerns arising from the application of the XRB A1 definition of public accountability.
9. Based on the feedback received, concerns about the XRB A1 definition of public accountability can be broadly summarised into two issues.⁵

Issue 1: Concerns (mainly from audit practitioners) that the current definition of public accountability in XRB A1 is too broad – too many entities in New Zealand are required to apply the highest level of reporting (Tier 1) and as a result, too many entities are being classified as PIEs for assurance purpose (and therefore required to comply additional independence requirements).

Issue 2: Concerns that it is not clear whether certain types of entities have public accountability as defined by XRB A1 — specifically, security brokers/dealers and fund managers. This issue centres around concerns that the current definition is difficult to understand and apply, therefore amendments to reduce the diversity of application outcomes in practice would be welcomed.

Issue 1

10. In response to issue 1, we recommend no standard-setting action be taken at this time. Instead, staff will continue to monitor the discussion on the PIE definition for assurance purposes by the international Boards⁶ and the NZAuASB.
11. We will also work together with NZAuASB staff to develop a paper to advance a broader discussion of this issue at the next joint NZASB/NZAuASB meeting planned for the first quarter of next year.⁷

Issue 2

12. In response to issue 2, staff have developed possible options to amend the definition of public accountability in XRB A1, to help reduce the extent of interpretation issues arising in practice. We request Board direction on whether we should commence a project to develop any of these options further into an amending standard. Any proposed amendments to XRB A1 will require XRB Board approval.

⁵ We have discussed the application of the XRB A1 definition of public accountability with key stakeholder groups, but we have not conducted broad public outreach activities.

⁶ The International Ethics Standards Board for Accountants (IESBA) is expected to finalise the PIE definition in December 2021 and the International Auditing and Assurance Standards Board (IAASB) is accelerating a project to consider the implications for the auditing standards.

⁷ This could include a discussion by the NZAuASB on whether the PIE definition for assurance purposes should continue to be aligned to Tier 1 as defined for financial reporting purposes.

Structure of the memo

13. The remaining sections of this memo are:
- [Background information](#)
 - Tier 1 reporting criteria in XRB A1
 - Definition of public accountability in XRB A1
 - AASB Tier 1 reporting criteria
 - Definition of PIE for assurance purposes
 - [Application issues and other feedback received](#)
 - [Staff recommendations — responding to issues identified](#)
14. The memo also includes the following appendices with further background information (which Board members can choose to read).
- [Appendix A](#) — XRB A1 definition of public accountability
 - [Appendix B](#) — EG A1 guidance on determining whether an entity has public accountability
 - [Appendix C](#) — AASB Tier 1 reporting criteria
 - [Appendix D](#) — Flowchart of current Tier 1 reporting criteria

Background information

Tier 1 reporting criteria in XRB A1

15. XRB A1 sets out the tiers of financial reporting for all entities that have a statutory obligation to prepare general purpose financial reports in accordance with standards issued by the XRB (or that opts under any enactment to prepare such reports). This includes setting out the criteria for each tier and the accounting standards that apply to each tier.⁸
16. In general, XRB A1 requires all reporting entities with public accountability (as defined) to report in accordance with Tier 1 reporting requirements. The full Tier 1 reporting criteria for for-profit and PBE entities are outlined below.

For-profit entities

17. A for-profit entity is required to report in accordance with Tier 1 For-Profit Accounting Requirements (i.e. full NZ IFRS) if it:
- (a) (i) has public accountability at any time during the reporting period; or
 - (ii) is a large (total expenses over \$30 million) for-profit public sector entity; or

⁸ The reporting tier structure set out in XRB A1 applies to entities that have a statutory obligation to prepare general purpose financial reports in accordance with GAAP or a non-GAAP standard issued by the XRB (and entities that opt under any enactment to prepare such reports). For the sake of brevity, in this memo we have omitted the reference to 'non-GAAP standard issued by the XRB' when referring to the reporting tier requirements in XRB A1.

- (b) is eligible to report in accordance with the accounting requirements of Tier 2 but does not elect to report in accordance with that tier.⁹

Public benefit entities (PBE)

18. A public benefit entity (PBE) is required to report in accordance with Tier 1 PBE Accounting Requirements (i.e. full PBE Standards) if it:
- (a) (i) has public accountability at any time during the reporting period;¹⁰ or
 - (ii) is large (total expenses over \$30 million); or
 - (b) is eligible to report in accordance with the accounting requirements of another tier but does not elect to report in accordance with that other tier.¹¹

Definition of public accountability in XRB A1

19. Any New Zealand entity that has a statutory requirement to prepare general purpose financial reports in accordance with XRB Standards (or that opts under any enactment to prepare such reports) that has public accountability (as defined) at any time during the reporting period is required to apply Tier 1 reporting requirements.
20. XRB A1 defines an entity as having public accountability if:
- (a) it meets the IASB definition of public accountability; or
 - (b) it is deemed to have public accountability in New Zealand based on whether it is an FMC reporting entity that has a “higher level of public accountability” than other FMC reporting entities, in accordance with the Financial Markets Conduct Act 2013 (FMC Act) or other notice issued by the FMA.¹²
21. The two legs of the XRB definition of public accountability are discussed in the separate sections below. The second leg is described by this paper as the “deeming approach”.
22. The full definition of public accountability and the accompanying guidance paragraphs as provided in XRB A1 are set out in [Appendix A](#).
23. Further guidance on applying the definition of public accountability is provided in the XRB’s Explanatory Guide EG A1 *Guide to Application of Accounting Standards Framework* — refer to [Appendix B](#).

⁹ XRB A1, paragraph 17.

¹⁰ XRB A1 emphasises that definition of public accountability for determining Tier 1 reporting requirements has a specific technical meaning and is narrower than the generic term of public accountability that generally used to describe the nature of all PBEs.

¹¹ XRB A1, paragraph 37.

¹² XRB A1, paragraph 7.

First leg — The IASB definition of public accountability

24. The IASB definition of public accountability in XRB A1 is used by the IASB to define the intended scope of the *IFRS for SMEs Standard*. This definition is replicated word-for-word in paragraph 8 of XRB A1.

In accordance with the IFRS for SMEs Standard, an entity has public accountability if:

- (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
- (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion).

25. The same definition of public accountability has been recently used by the IASB in the ED/2021/7 *Subsidiaries without Public Accountability: Disclosures* issued in July 2021.¹³
26. The original rationale for using the IASB definition of public accountability in XRB A1 was to ensure that for-profit entities that should be applying full NZ IFRS (from a public interest perspective) are generally aligned with those that the IASB considers should be applying full IFRS Standards (to reflect generally accepted international best practice).¹⁴

Second leg — Entities deemed to have public accountability

27. When first developing the [New Zealand Accounting Standards Framework](#), the XRB recognised the need to deem certain entities as having public accountability for financial reporting purposes – and therefore requiring them to apply Tier 1 reporting requirements. Most of these entities are caught by the IASB’s principles-based definition of public accountability, but to remove any doubt certain entities were ‘deemed’ to have public accountability by paragraph 9 of XRB A1.

9 An entity is deemed to have public accountability in New Zealand if:

- (a) it is an FMC reporting entity or a class of FMC reporting entities that is considered to have a “higher level of public accountability” than other FMC reporting entities under section 461K of the Financial Markets Conduct Act 2013; or
- (b) it is an FMC reporting entity or a class of FMC reporting entities that is considered to have a “higher level of public accountability” by a notice issued by the Financial Markets Authority (FMA) under section 461L(1)(a) of the Financial Markets Conduct Act 2013.

28. FMC reporting entities with a “higher level of public accountability” under the FMC Act or through a notice issued under the FMC Act include:
- (a) all issuers of equity securities or debt securities;
 - (b) listed issuers;
 - (c) licensed derivatives issuers;

¹³ This is a proposed new IFRS Standard that would permit eligible subsidiaries to apply IFRS Standards with a reduced set of disclosure requirements.

¹⁴ Paragraph 11 of the New Zealand Accounting Standards Framework.

- (d) recipients of money from a conduit issuer;
 - (e) licensed managed investment schemes (MIS) (in respect of the investment fund financial statements);
 - (f) registered banks;
 - (g) credit unions;
 - (h) licensed insurers;
 - (i) building societies; and
 - (j) any other entity designated as having a higher level of public accountability by the FMA.
29. FMC reporting entities with ‘lower levels of public accountability’ include:¹⁵
- (a) licensed MIS managers (in respect of the manager’s own financial statements);
 - (b) licensed providers of discretionary investment management services (DIMS);¹⁶
 - (c) licensed peer-to-peer lending service providers;
 - (d) licensed crowd funding service provers;
 - (e) licensed supervisors;¹⁷ and
 - (f) licensed market operators (domestic).¹⁸
30. Section 461(J)(2) of the FMC Act provides that the XRB, when setting its financial reporting tier strategy, “*must have regard to which FMC reporting entities are considered to have a higher level of public accountability*”.
31. The FMC Act does not require the XRB to include any particular class of FMC reporting entity (including those classified as having higher levels of public accountability) within a particular tier of financial reporting. It is the responsibility of the XRB to decide the reporting tier for different types of entities.¹⁹
32. The *New Zealand Accounting Standards Framework* sets out the XRB’s view that any entity designated under law as having a “higher level of public accountability” by the FMA is deemed to have public accountability and is therefore required to report under Tier 1. The deeming approach in XRB A1 ensures that the definition of public accountability reflects current legislation, most notably the FMC Act.²⁰

¹⁵ These FMC reporting entities are required to apply Tier 2 reporting requirements.

¹⁶ A DIMS is an arrangement whereby the investor gives a financial advisor authority to make buy-sell decisions on its behalf and authority to manage some or all of the investors holdings of financial products.

¹⁷ Supervisors are appointed to look after investors' interests for some types of financial products (debts securities, specified managed funds, superannuation schemes (including KiwiSaver), and the interests of residents of retirement villages.

¹⁸ Anyone operating a financial product market needs to be licenced unless the market is exempt. A financial product market is a facility where financial products are bought or sold, or where offers or invitations to buy or sell financial products are made.

¹⁹ Section 461(J)(3) of the FMC Act.

²⁰ Paragraph 13 of the New Zealand Accounting Standards Framework.

AASB Tier 1 reporting criteria

33. AASB 1053 *Application of Tiers of Australian Accounting Standards* sets out the criteria for different reporting tiers in Australia. The Tier 1 reporting criteria include the IASB definition of public accountability, and the accompanying integral guidance includes deeming provisions similar to the approach taken in XRB A1.
34. Except for some differences in the specific entities described by the deeming provisions (to take into account Australian securities law and regulations), the Tier 1 reporting criteria approach in Australia is consistent with XRB A1. The AASB approach uses the same IASB definition of public accountability and also includes a deeming approach in Appendix B of AASB 1053.
35. In developing its Tier 1 reporting criteria, the AASB concluded that for-profit entities that have public accountability (as defined in *IFRS for SMEs*) should be required to apply full IFRSs as adopted in Australia. The AASB noted that, since Australia has adopted full IFRSs, it would be logical to use the same public accountability notion used by the IASB in determining which entities in the for-profit sector should apply Australian Accounting Standards in full.²¹
36. The AASB acknowledged constituents' comments that the application of the IASB definition of public accountability in some cases may involve increased judgement. Some constituents noted it would be helpful for the AASB to clarify certain terms used in the IASB definition of public accountability. These include the term 'public market' referred to in the first leg of the definition, and the terms 'fiduciary', 'broad', 'outsiders', and 'primary business' referred to in the second leg of the definition. However, the AASB noted it is not a policy of the Board to further interpret the IASB's terms and definitions. Accordingly, the AASB decided that, instead of interpreting the terms in the definition, AASB 1053 should identify entities that the Board deems to have public accountability in the Australian context, to supplement the IASB's definition of public accountability (see Appendix B of AASB 1053).²²
37. For further details on the AASB's Tier 1 reporting criteria (including Appendix B of AASB 1053), please refer to [Appendix C](#).

Definition of public interest entity (PIE) for assurance purposes

38. The definition of public accountability as defined by XRB A1 is important from an audit engagement perspective, because it is a key factor in determining when a reporting entity is classified as a PIE. Auditors of PIEs have additional independence requirements when performing audit engagements.

²¹ BC 25 of AASB 1058

²² BC 26 of AASB 1058

Definition of PIE in New Zealand

39. A PIE in New Zealand is defined as:

Any entity that meets the Tier 1 reporting criteria in XRB A1 and is not eligible to report in accordance with the accounting requirements of another tier.²³

40. Whether an entity has public accountability for reporting purposes as defined by XRB A1 will also determine whether an entity is a PIE for audit engagement purposes. NZAuASB staff have provided feedback that audit practitioners do not feel that the definition of public accountability in XRB A1 is clear in certain circumstances, which leads to issues when determining whether the entity should be treated as a PIE for assurance purposes.

Definition of PIE in International Code of Ethics for Professional Accountants

41. In the glossary to the International Code of Ethics for Professional Accountants (including International Independence Standards) (the Code), a PIE is defined as follows.

(a) A listed entity; or
 (b) An entity:
 (i) Defined by regulation or legislation as a public interest entity; or
 (ii) For which the audit is required by regulation or legislation to be conducted in compliance with the same independence requirements that apply to the audit of listed entities. Such regulation might be promulgated by any relevant regulator, including an audit regulator.
 Other entities might also be considered to be public interest entities, as set out in paragraph 400.8 of the Code.

400.8 Some of the requirements and application material set out in this Part reflect the extent of public interest in certain entities which are defined to be public interest entities. Firms are encouraged to determine whether to treat additional entities, or certain categories of entities, as public interest entities because they have a large number and wide range of stakeholders. Factors to be considered include:
 (a) The nature of the business, such as the holding of assets in a fiduciary capacity for a large number of stakeholders. Examples might include financial institutions, such as banks and insurance companies, and pension funds.
 (b) Size.
 (c) Number of employees.

42. The definition of a PIE in the Code includes no direct reference to the IASB definition of public accountability, but it does include many similar concepts and principles. It is interesting to note the other PIE considerations in paragraph 400.8 of the Code – range of stakeholders, size, and number of employees – which are not considered as part of the IASB definition of public accountability.
43. IESBA in coordination with the IAASB is currently reviewing the definitions of the terms “listed entity” and “PIE” in the Code, to revise them as necessary so that they remain relevant and fit

²³ Professional and Ethical Standards 1 (PES 1)

for purpose. An Exposure Draft *Proposed Revisions to the Definitions of Listed Entities and Public Interest Entity in the Code* (ED) was issued by IESBA in May 2021.

44. The ED proposes to broaden the definition of a PIE to include additional categories of entity, including:
 - a publicly traded entity;
 - an entity one of whose main functions is to take deposits from the public;
 - an entity one of whose main functions is to provide insurance to the public;
 - an entity whose function is to provide post-employment benefits; and
 - an entity whose function is to act as a collective investment vehicle.
45. An area of contention is whether pension funds and mutual funds available to the public should be included in the PIE categories. It is generally agreed that large managed investment funds should be included in the definition of a PIE because they attract significant public interest, but not all investment schemes of this nature should be caught (such as smaller investments schemes and those that are closely held).
46. The ED recognises that the local standard setter and regulator have a role in refining the PIE categories to give regard to national conditions and legal frameworks for financial products provided to the public. It is expected that local jurisdictions will add additional categories of entities to the international definition of a PIE.
47. The IESBA intends to finalise the amended PIE definition at its December 2021 meeting.
48. The NZAuASB has agreed that once the IESBA PIE definition is updated, it will be necessary to re-evaluate whether the New Zealand PIE definition (currently based on the Tier 1 reporting criteria in XRB A1) remains fit for purpose.

Application issues and other feedback received

49. On a sporadic basis, we have received feedback from individual practitioners that applying the definition of public accountability as used for determining Tier 1 reporting requirements in XRB A1 is considered overly complex and difficult to apply in certain circumstances.
50. Some difficulties in applying the XRB A1 definition of public accountability are to be expected, given the IASB definition of public accountability is principles-based, and applying the deeming approach requires consideration of specified terms in the FMC Act and other notices issued by FMA. The application of a degree of professional judgement is considered necessary and appropriate for certain entities.
51. To better understand the extent and nature of these application issues, staff have completed some targeted outreach activities over the May–July 2021 period. This included discussions with the TRG, FMA, NZAuASB staff, AASB staff, and individual practitioners who have previously raised concerns with us. We also reached out to Lay Wee Ng, who was involved in the development of the tier structure in XRB A1 when it was first introduced.

52. The objective of the outreach was to consider whether amendments to the XRB A1 definition of public accountability (and/or associated guidance material) should be considered, to make it clearer and more straightforward to apply.

TRG

53. At the TRG July 2021 meeting, members were asked for feedback on whether there was a need to amend the definition of public accountability in XRB A1 and whether the Tier 1 reporting criteria were causing any other concerns in practice.
54. TRG comments included the following.
- Application issues in applying the XRB A1 definition of public accountability have arisen in the past, but these have been largely worked through and resolved by the accounting firms.
 - The application issues that have arisen in practice mainly relate to the deeming approach used in the XRB A1 definition of public accountability. Determining whether an entity has “higher levels of public accountability” as defined by the FMC Act or other FMA notices is not always straightforward. The resolution of these issues has often required the support of professional legal advice as issues have centred around the interpretation of the law.
 - The use of the IASB definition of public accountability as part of the XRB A1 definition of public accountability was not considered to be causing significant interpretation issues in practice. Most entities caught by the IASB definition of public accountability are also FMC reporting entities – therefore whether an FMC entity is considered to have public accountability is often being driven by whether the entity is classified as having “higher levels of public accountability” by the FMC Act.
 - Rather than amending the definition of public accountability in XRB A1, TRG members suggested there could be benefits in issuing some additional guidance to assist entities applying the definition, for certain types of entities where there is some diversity in practice – for example, sharebrokers.
 - Overall, TRG members considered that the application issues arising in practice from applying the XRB A1 definition of public accountability are not considered “pervasive”.

FMA

55. The Tier 1 reporting criteria and the definition of public accountability in XRB A1 were discussed with Jacco Moison (Head of Audit and Financial Reporting) and Sanja Sesto (Financial Reporting Manager) on 22 July 2021.
56. They did not highlight any significant concerns about the application of the current definition of public accountability in XRB A1. They acknowledged that there was a level of professional judgement required by certain FMC reporting entities when determining whether they have “higher levels of accountability” as defined by the FMC Act and other FMA notices.

57. They noted that when XRB A1 was last exposed for comment, the FMA had recommended that the IASB definition of public accountability be removed from the Tier 1 reporting criteria. They would support an outcome whereby only those for-profit entities classified as having “higher levels of public accountability” under FMC regulations should be required to apply Tier 1 reporting requirements.

Audit practitioners

58. Comments received from audit practitioners from major accounting firms included the following.²⁴
- There is a diversity of views across the accounting firms about how the Tier 1 reporting criteria should be applied in practice. Some are concluding that only entities that are considered to have “higher levels of accountability” as defined by the FMC Act are required to apply Tier 1 reporting requirements.
 - When there is uncertainty about whether an entity meets the Tier 1 reporting criteria, there is a tendency to elect to report under Tier 1. This decision is based on the desire to avoid the risk of a decision to report under a lower tier being subject to regulatory scrutiny. Simply opting up to Tier 1 in circumstances where there is doubt does not resolve the issue concerning whether the entity should be treated as a PIE for assurance purposes. A PIE is defined as an entity that is required to report using Tier 1 reporting requirements and excludes entities that could choose to opt down.

Uncertainty about whether ‘securities brokers/dealers’ have public accountability

59. Follow-up discussions with the audit partner (to better understand the comment above about the diversity of views) confirmed that the key area of difficulty arises from applying the second part of the IASB definition of public accountability as it relates to “*securities brokers/dealers*”. Specifically, it is not clear whether entities broadly described as securities brokers/dealers “*hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses*”.
60. When these entities are not classified under FMC regulations as having “higher levels of public accountability”, it is not clear when the broader IASB definition of public accountability applies to entities that are broadly described as “securities brokers/dealers”.
61. The bracketed text in paragraph 8(b) of XRB A1 provides the impression that “most” securities brokers/dealers are caught by the IASB definition of public accountability. The audit partner considered that this does not appropriately reflect the diverse nature of services now provided by different types of securities brokers/dealers in New Zealand.

²⁴ Comments were received from 1 audit partner which included comments the audit partner had received from other audit practitioners across different firms.

Extract from XRB A1

- 8 In accordance with the IASB definition, an entity has public accountability if:
- (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
 - (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion).

62. The term ‘broker’ under the FMC Act and other FMA regulations is generally considered to be a financial service provider who holds or deals with client money or property on behalf of clients. This can include stockbrokers, providers of investment portfolio services, and financial advisors who receive money from clients. However, some financial service providers who are known as “brokers” do not hold any client money or property, such as some insurance brokers and mortgage brokers.²⁵
63. When applying the IASB definition of public accountability, it is not clear when securities brokers/dealers are considered to *hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses*. In most cases, the primary business of securities brokers/dealers is to buy/sell securities on behalf of clients and/or provide investment advisory and portfolio administration services. Under the FMC Act, some securities brokers/dealers are classified as having “higher levels of accountability” than other FMC entities based on the nature of the service provided, and others are not.

Uncertainty about whether ‘fund managers’ have public accountability

64. In practice, we understand there is also some uncertainty over whether fund managers are caught by the IASB definition of public accountability and are required to apply Tier 1 reporting requirements. The FMC Act and other FMA regulations generally classify fund managers who provide discretionary investment management services (DIMS) as having a lower level of public accountability.
65. The diversity in views arises from applying the IASB definition of public accountability, specifically whether fund managers are considered to *“hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses”*.
66. Fund Managers, as described by FMA regulations, provide administration services associated with operating managed investment schemes (for example KiwiSaver schemes). Most fund managers are FMA authorised financial advisors who are licensed to provide DIMS. Fund Managers who provide DIMS are authorised to make buy/sell decisions on behalf of clients in respect of a portfolio of investments, often without the need to refer to the client for every transaction or investment decision.²⁶

²⁵ *Guidance Note: Broker Obligations*, issued by the FMA February 2014.

²⁶ *Guidance Note: Discretionary Investment Management Services*, issued by the FMA June 2014.

Uncertainty about the application of paragraph 10 of XRB A1

67. Practitioners have also noted that paragraph 10 of XRB A1 adds unnecessary complexity to the application of the definition of public accountability when applying the Tier 1 reporting criteria.

Extract from XRB A1	
Public accountability	
7	For the purpose of applying the Tier 1 criteria, an entity has public accountability if: <ul style="list-style-type: none"> (a) it meets the IASB definition of public accountability as specified in paragraph 8 (subject to paragraph 10); or (b) it is deemed to have public accountability in New Zealand in accordance with paragraph 9.
8	In accordance with the IASB definition, an entity has public accountability if: <ul style="list-style-type: none"> (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion).
9	An entity is deemed to have public accountability in New Zealand if: <ul style="list-style-type: none"> (a) it is an FMC reporting entity or a class of FMC reporting entities that is considered to have a “higher level of public accountability” than other FMC reporting entities under section 461K of the Financial Markets Conduct Act 2013; or (b) it is an FMC reporting entity or a class of FMC reporting entities that is considered to have a “higher level of public accountability” by a notice issued by the Financial Markets Authority (FMA) under section 461L(1)(a) of the Financial Markets Conduct Act 2013.
10	Notwithstanding paragraph 8(b), an FMC reporting entity is not considered to have public accountability unless it is considered to have a “higher level of public accountability” than other FMC reporting entities in accordance with paragraph 9(a) or 9(b).

68. The impact of applying paragraph 10 of XRB A1 is:
- (a) an FMC reporting entity²⁷ that holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses does not have public accountability unless it is considered to have a “higher level of public accountability” as defined by the FMC Act; and
 - (b) any other entity that has a statutory obligation (or opts under any enactment) to prepare financial statements in accordance with GAAP has public accountability if it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.
69. Practitioners have highlighted difficulties interpreting paragraph 10 of XRB A1 (it is considered overly complex) and cannot understand the outcome it is seeking to achieve. They note it

²⁷ An FMC reporting entity is defined by [section 451](#) of the FMC Act 2013

does not feel logical that an FMC reporting entity is not required to consider paragraph 8(b) of XRB A1 when considering whether it has public accountability, but non-FMC entities are required to consider paragraph 8(b).

70. The outcome of applying paragraph 10 is illustrated in [Appendix D](#).

AASB staff

71. Comments received from AAAB staff on the Tier 1 reporting criteria in Australia.

- The AASB also uses the IASB definition of public accountability to establish Tier 1 reporting requirements in Australia (as detailed in [Appendix C](#)).
- They have also noted some application issues arising from time to time when an entity is considering whether they *hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses*. One example given of application challenges was whether securitisation trusts²⁸ are Tier 1 reporting entities, based on applying the IASB definition of public accountability.
- The AASB is not currently considering any changes to the Tier 1 reporting criteria or the definition of public accountability in AASB 1053 (or any other related guidance material).

NZAuASB staff

72. The Tier 1 reporting criteria and the definition of public accountability in XRB A1 were discussed with the XRB's Interim Audit and Assurance Director.

73. The NZAuASB has received feedback from some audit practitioners that the current definition of public accountability in XRB A1 can be difficult to apply, is overly complex for certain types of entities and is difficult to understand. These concerns are consistent with the issues discussed above from audit practitioners.

74. Determining whether an entity has public accountability as defined by XRB A1 is important because this determines whether an entity is defined as a PIE for audit engagement purposes. Audit practitioners do not feel that the definition of a PIE is clear because of issues applying the definition of public accountability in XRB A1.

Other concerns regarding PIE definition

75. Audit practitioners have also expressed concerns that the XRB's PIE definition is capturing too many entities. Any entity with public accountability as defined by XRB A1 is required to apply Tier 1 reporting requirements, regardless of any other considerations (such as size), and as a result, is also defined as a PIE for assurance purposes. For example, many non-listed FMC reporting entities are classified as Tier 1 reporting entities because they are defined by FMA

²⁸ A securitisation trust is usually established by a trust deed. This appoints a trustee to have ownership of the trust property (initially, a nominal amount of money to facilitate creation of the trust and then the receivables) on behalf of the beneficiaries (usually the originator/sponsor).

regulations as having “higher levels of public accountability” — this includes a large number of managed investment schemes.

- 76. As provided in Table 1 below, there are approximately 700–1,000 managed investment schemes in New Zealand that are classified as Tier 1 reporting entities, which as a result are also treated as PIEs for assurance purposes.
- 77. The indicative Tier 1 reporting (and PIE) population in New Zealand as summarised by NZAuASB staff.

Table 1 – Tier 1 reporting entities			
For Profit		Not-for-profit	Public sector²⁹
Listed (debt and equity)	Approx. 170	Approx. 70 Tier 1 charities NFP entities with over \$30 million expenditure	Approx. 260 large Tier 1 public sector PBEs. Some public sector entities are for-profit FMC reporting entities.
Banks, insurers, credit unions	Approx. 170		
Other issuers	Approx. 300		
Managed investment schemes	Approx. 700–1,000		
Other FMC reporting entities	Approx. 600		
	2,000 – 2,500	70	260

- 78. Recent concerns voiced by practitioners over the number of entities classified as PIEs for audit purposes has been exacerbated by the introduction of more stringent auditor rotation requirements for PIEs and the current audit staff shortage as a result of border restrictions.
- 79. NZAuASB staff are planning to advance a discussion on which entities should have be treated as PIEs for assurance purposes at the joint NZASB/NZAuASB meeting in the first quarter of 2022. Including whether the PIE definition should continue to be linked to Tier 1 reporting criteria in XRB A1.

Staff recommendations —responding to issues identified

- 80. Based on the feedback received, concerns about the application of the XRB A1 definition of public accountability can be broadly summarised into two issues:

Issue 1: Concerns (mainly from audit practitioners) that the current definition of public accountability in XRB A1 is too broad – the view that too many entities in New Zealand are required to apply the highest level of reporting (Tier 1) and as a result,

²⁹ The Auditor-General’s independence requirements apply equally to all public entities and to all work carried out by, or on behalf of, the Auditor-General. In practice, this means that that the requirements in PES 1 that apply to “public interest entities” shall be applied to all public entities, unless the Auditor-General requires a different standard to be applied.

too many entities are being classified as PIEs for assurance purpose (and therefore required to comply with the highest level of assurance requirements).

Issue 2: Concerns that it is not clear whether certain types of entities have public accountability as defined by XRB A1 — specifically, security brokers/dealers and fund managers. This issue centres around concerns that the current definition is difficult to apply and amendments to reduce the diversity of application outcomes in practice would be welcomed.

Responding to issue 1

81. In response to issue 1, we recommend no standard-setting action be taken at this time. Instead, staff will continue to monitor the discussion on the PIE definition for assurance purposes by the international Boards³⁰ and the NZAuASB. We agree with NZAuASB staff that issue 1 should be considered at a broader XRB organisational level.
82. The New Zealand Accounting Standards Framework (the Framework) sets out the XRB’s current position on which entities should have Tier 1 reporting requirements. It concludes that in addition to using the IASB definition of public accountability, certain New Zealand entities should be deemed to have Tier 1 reporting requirements. This position is built around the following two Framework conclusions on the Tier 1 criteria.
 - The IASB definition of public accountability has been used to maintain alignment with the IASB’s views concerning which entities should be required to apply full IFRS; and
 - The deeming approach has been used to ensure that the definition of public accountability reflects current legislation, most notably the FMC Act.
83. The FMC Act empowers the FMA to designate an FMC reporting entity or class of FMC reporting entity as having a “higher level of public accountability” than other FMC reporting entities. Under the Framework, only FMC reporting entities that have a “higher level of public accountability” are deemed to have public accountability and are therefore required to apply Tier 1 reporting requirements. FMC entities that do not have a higher level of public accountability may report under Tier 2 for-profit reporting requirements.
84. Although the XRB has the authority to determine the appropriate reporting requirements for different types of FMC reporting entities (including which tier they apply), we do not believe it would be appropriate for the XRB to permit an FMC reporting entity with a “higher level of public accountability” (as classified by the FMC Act) to apply a lower tier of reporting. Any change to the Tier 1 reporting requirements of FMC entities with “higher levels of public accountability” would need to be led by the FMA.
85. Concerns raised by audit practitioners, that too many entities are classified as Tier 1 entities, are on their own not an appropriate reason for considering any significant changes to how public accountability is defined in XRB A1 (including the deeming provisions). Prima facie,

³⁰ The International Ethics Standards Board for Accountants (IESBA) and the International Auditing and Assurance Standards Board (IASSB) are currently considering the PIE definition.

these concerns appear to be largely driven by ongoing auditor resourcing challenges across the accounting profession and the additional challenges arising from PIEs being subject to auditor rotation requirements.

86. The primary driver for any proposed change to the definition of public accountability as used in the XRB A1 Tier 1 reporting criteria (including the deeming provisions which are aligned with the definition of “higher level of public accountability” under the FMC Act) should be based on public interest considerations, including the need to maintain a trusted financial sector.³¹
87. We note that the XRB’s *Targeted Review of the New Zealand Accounting Standards Framework*, which was completed in the second half of 2019, did not highlight any significant concerns with the Tier 1 reporting criteria. One respondent noted that the definition of public accountability was not easy to apply to his organisation, being a not-for-profit trust. In response we acknowledged “*that some entities may need to apply more judgement than others when determining whether they have public accountability, but we believe that the current guidance on the meaning of ‘public accountability’ is sufficient, and reflects both the IASB’s internationally accepted definition of public accountability and New Zealand legislation.*”

Staff recommendation

88. In response to issue 1, staff recommend:
- (a) continuing to monitor the discussion on the definition of PIEs for assurance purposes by the IESBA, IAASB, and NZAuASB;
 - (b) working together with NZAuASB staff to develop a paper to advance a broader discussion on this issue at the next joint NZASB/NZAuASB meeting; and
 - (c) that no other standard-setting action be taken at this time.

Questions for the Board

1. Does the Board agree with the staff’s proposed response to issue 1?
2. Are there other actions that should be taken in response to issue 1?

Responding to issue 2

89. In response to issue 2, we have considered possible standard-setting options to address concerns that it is not clear whether certain types of entities have Tier 1 reporting requirements based on the definition of public accountability in XRB A1.
90. At recent international standard-setter meetings attended by the Director of Accounting Standards and the NZASB Chair, we made enquiries to assess the willingness of the IASB to consider amendments to improve the clarity of how the IASB definition of public

³¹ The reference to “finance sector” includes issuers, banks, insurers, and other entities who have provided a financial product through a public offering.

accountability should be applied in certain circumstances. IASB staff confirmed that there are no plans or intentions to amend this definition over the short-to-medium term.

91. We have therefore explored possible domestic standard-setting options, as outlined in Table 2.

Table 2	
Options to amend the Tier 1 reporting criteria in XRB A1	Staff comments
<p>Option 1</p> <p>Amend the definition of “public accountability” in XRB A1 by removing the IASB definition of public accountability, and instead, defining entities with public accountability as only those entities with “higher levels of public accountability” as defined by the FMC Act or other FMA regulations.</p> <p>This approach would involve amending paragraph 7 of XRB A1.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> <p>7 For the purpose of applying the Tier 1 criteria, an entity has public accountability if:</p> <p>(a) it meets the IASB definition of public accountability as specified in paragraph 8 (subject to paragraph 10); or</p> <p>(b) it is deemed to have public accountability in New Zealand in accordance with paragraph 9.</p> </div>	<p><i>Pros</i></p> <ul style="list-style-type: none"> This would resolve the application issue identified in practice, that it is not clear for certain non-FMC reporting entities when they are considered to hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses. When XRB A1 was updated and exposed for comment in 2013, two of the six respondents recommended that XRB A1 should omit the IASB definition of public accountability and use only the deeming approach to define which entities in New Zealand are defined as having public accountability for Tier 1 reporting requirements.³² In response to the 2013 ED, the XRB agreed to keep under review the appropriateness of retaining the IASB’s definition of public accountability.³³ <p><i>Cons</i></p> <ul style="list-style-type: none"> The rationale for retaining the IASB definition of public accountability (in addition to the deeming approach) is that it ensures that for-profit entities who are required to apply full NZ IFRS are generally aligned with those that the IASB consider should be applying full IFRS. The retention of the principles based IASB definition of public accountability will at times require the application of professional judgement, but it also importantly provides a ‘safety net’ to capture any reporting entities that are not caught deeming provisions but should in principle have Tier 1 reporting requirements.³⁴

³² XRB ED: *Amendments to XRB A1 Accounting Standards Framework: Omnibus Amendments (Legislative Update)* issued February 2014.

³³ *Feedback Statement on XRB ED: Amendments to XRB A1 Accounting Standards Framework: Omnibus Amendments (Legislative Update)*.

³⁴ A possible example may include New Zealand entities that have issued shares/debt on a public market overseas. These entities may not be caught in all instances by FMA regulations, but in principle should have Tier 1 reporting obligations.

Table 2	
Options to amend the Tier 1 reporting criteria in XRB A1	Staff comments
	<ul style="list-style-type: none"> • Similar to the above point, there is a risk that the removal of the principles based IASB definition of public accountability could have unintended consequences. TRG members expressed nervousness about removing the IASB definition of public accountability. • This option would result in a loss of harmonisation between the New Zealand and Australia Tier 1 reporting criteria for for-profit entities.
<p>Option 2</p> <p>Amend the IASB definition of public accountability in XRB A1, by removing the bracketed text from paragraph 8(b) of XRB 1.</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p>8 In accordance with the IASB definition, an entity has public accountability if:</p> <p>(a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or</p> <p>(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion).</p> </div> <p>The purpose of this amendment is to remove the issue arising in practice that all “securities brokers/dealers” are perceived to be caught by the IASB definition of public accountability.</p>	<p><i>Pros</i></p> <ul style="list-style-type: none"> • This option is consistent with the approach taken in Australia, where they have removed the bracketed text from their definition of public accountability. However, the bracketed text from paragraph 8(b) has been included in accompanying integral guidance material within the AASB standard. • This amendment would work well when accompanied by guidance material that explains that <u>some</u> securities brokers/dealers and fund managers will be considered to have public accountability and others will not – it will depend on the nature of the entity’s primary businesses. For example, securities brokers/dealers and fund managers that do not hold client assets, but instead only provide investment portfolio advice and/or transaction buy/sell services, will not in general be considered to have public accountability as defined by XRB A1. <p><i>Cons</i></p> <ul style="list-style-type: none"> • Introduces an inconsistency with IASB literature. • Under this approach, there is a risk that XRB guidance concerning whether securities brokers/dealers are considered to have public accountability for Tier 1 reporting may not be consistent with the FMA conclusions concerning when entities of this nature have a “higher level of accountability”. • The removal of the bracketed text will not fully resolve the interpretation issues arising in practice – some ‘greyness’ will remain.

Table 2	
Options to amend the Tier 1 reporting criteria in XRB A1	Staff comments
<p>Option 3</p> <p>Amend the XRB A1 definition of public accountability so that fund managers and securities brokers/dealers are only considered to have “public accountability” when they are classified as having a “higher level of public accountability” as defined by the FMC Act or other FMC notices.</p> <p>This approach would not involve any amendments to the definition of public accountability in paragraph 7 of XRB A1 (i.e. the IASB definition of public accountability and the deeming approach would be retained), but paragraph 10 of XRB A1 would be amended as follows:</p> <div style="border: 1px solid black; padding: 5px; margin: 10px 0;"> <p>10 Notwithstanding paragraph 8(b)), An FMC reporting entity is not considered to have public accountability under the second part of the IASB definition (paragraph 8(b)) unless it is deemed to have public accountability considered to have a “higher level of public accountability” than other FMC reporting entities in accordance with paragraph 9(a) or 9(b).</p> </div> <p>The impact of the amendment is that any entity (including FMC reporting entities) that holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses will only be a Tier 1 reporting entity if they are classified as having a “higher level of public accountability” as defined by the FMC Act.</p>	<p><i>Pros</i></p> <ul style="list-style-type: none"> Resolves one of the common interpretation issues identified in practice — that is, determining whether entities such as securities brokers/dealers, fund managers, and other entities are considered to “hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses”, and therefore have public accountability as defined by the IASB definition of public accountability. Maintains alignment with the IASB definition of public accountability (this will be retained in paragraphs 7 and 8 of XRB A1). Maintains broad alignment with how public accountability has been defined by the AASB for Tier 1 reporting purposes. Maintains the current deeming approach in paragraph 9. <p><i>Cons</i></p> <ul style="list-style-type: none"> There may be some non-FMC reporting entities, which hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses, that in principle should apply Tier 1 reporting requirements – but because of this amendment will fall through the cracks and apply Tier 2 reporting requirements instead (this risk is considered low). The risk above is low because most entities that hold holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses are caught by FMA regulations.

Staff recommendation

92. In response to [issue 2](#), we recommend commencing a project to develop limited scope amendments to XRB A1 based on the Board preference for the proposed option(s) above. The scope of the project would be limited to addressing the specific application issues raised in practice – determining whether securities brokers/dealers and fund managers should have Tier 1 reporting requirements.

Questions for the Board

3. Should we commence a project to develop amendments to clarify the definition of public accountability to XRB A1?

This would be a limited scope project in which the definition of public accountability in XRB A1 would continue to be based on the two-leg approach — based on applying the IASB definition of public accountability and the deeming approach. However, amendments (as discussed in Table 2) would be considered to clarify when certain types of entities would be considered to have public accountability.

4. If you agree that we should commence a limited scope project, which option(s) from Table 2 would you support?
5. Are there any other actions that should be taken in response to the issues discussed in this paper?

Next steps

93. If the Board agrees to commence a project, proposed amendments in the form of a draft ITC and ED will be brought to a future NZASB meeting.
94. We will be updating the XRB Board on this possible project at its 14 December 2021 meeting.

Appendix A — XRB A1 Definition of Public Accountability

The definition of public accountability from XRB A1 is as follows.

Definitions

Public accountability, for the purposes of the Tier 1 criteria, has the meaning set out in paragraphs 7 to 13.

Public accountability

- 7 For the purpose of applying the Tier 1 criteria, an entity has public accountability if:
- (a) it meets the IASB definition of public accountability as specified in paragraph 8 (subject to paragraph 10); or
 - (b) it is deemed to have public accountability in New Zealand in accordance with paragraph 9.
- 8 In accordance with the IASB definition, an entity has public accountability if:
- (a) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
 - (b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion).
- 9 An entity is deemed to have public accountability in New Zealand if:
- (a) it is an FMC reporting entity or a class of FMC reporting entities that is considered to have a “higher level of public accountability” than other FMC reporting entities under section 461K of the Financial Markets Conduct Act 2013³⁵; or
 - (b) it is an FMC reporting entity or a class of FMC reporting entities that is considered to have a “higher level of public accountability” by a notice issued by the Financial Markets Authority (FMA) under section 461L(1)(a) of the Financial Markets Conduct Act 2013.
- 10 Notwithstanding paragraph 8(b), an FMC reporting entity is not considered to have public accountability unless it is considered to have a “higher level of public accountability” than other FMC reporting entities in accordance with paragraph 9(a) or 9(b).
- 11 Some entities may hold assets in a fiduciary capacity for a broad group of outsiders because they hold and manage financial resources entrusted to them by clients, customers or members not involved in the management of the entity. However, if they do so for reasons incidental to a primary business, that does not mean that they have public accountability. For example:
- (a) this may be the case for travel or real estate agents, schools, charitable organisations, co-operative enterprises requiring a nominal membership deposit and sellers that receive payment in advance of delivery of the goods or services such as utility companies;
 - (b) in the public sector, a government department whose primary business is the provision of state housing to tenants does not have public accountability if it also manages trust money (rental bonds) on behalf of those tenants as an incidental activity to its primary business; and

³⁵ The terms “FMC reporting entity” and an FMC reporting entity with a “higher level of public accountability” are set out in the Financial Markets Conduct Act 2013. Under the Financial Markets Conduct Act 2013, certain FMC reporting entities are considered to have a higher level of public accountability for financial reporting purposes. These include issuers of equity securities or debt securities under a regulated offer; managers of registered schemes (in respect of financial statements of a scheme or fund); listed issuers; registered banks; licensed insurers; credit unions and building societies. In addition, the FMA may, by notice, specify that an entity (or a group of entities) is considered to have a higher level of public accountability or not to have a higher level of public accountability than other FMC reporting entities.

- (c) in the not-for-profit sector, a not-for-profit entity that provides a wide range of welfare services to beneficiaries as its primary activity does not have public accountability merely because it holds welfare benefits on behalf of some of those beneficiaries to assist them with budgeting. While the entity is holding assets in a “fiduciary capacity for a broad group of outsiders” it is not holding them “as one of its primary businesses”. This is because providing the budgeting services is an incidental activity to its primary activity of providing a range of welfare services to beneficiaries.
- 12 Trustees of a trust are required to act in a fiduciary capacity for the benefit of the beneficiaries of that trust or in achieving the objects of the trust. However, this does not necessarily mean that the trust has public accountability as defined in paragraph 8(b). For example, a trust would not have public accountability when the financial resources or other resources held and managed by the trust are not the resources of specified individual beneficiaries, in the manner that the financial resources of the entities listed in paragraph 8(b) are the resources of the individual clients, customers and members of those entities.
13. Where the entity is a group in New Zealand, and the parent/controlling entity of the group has public accountability, the group is deemed to have public accountability. A group is not considered to have public accountability solely by reason of a subsidiary/controlled entity having public accountability.

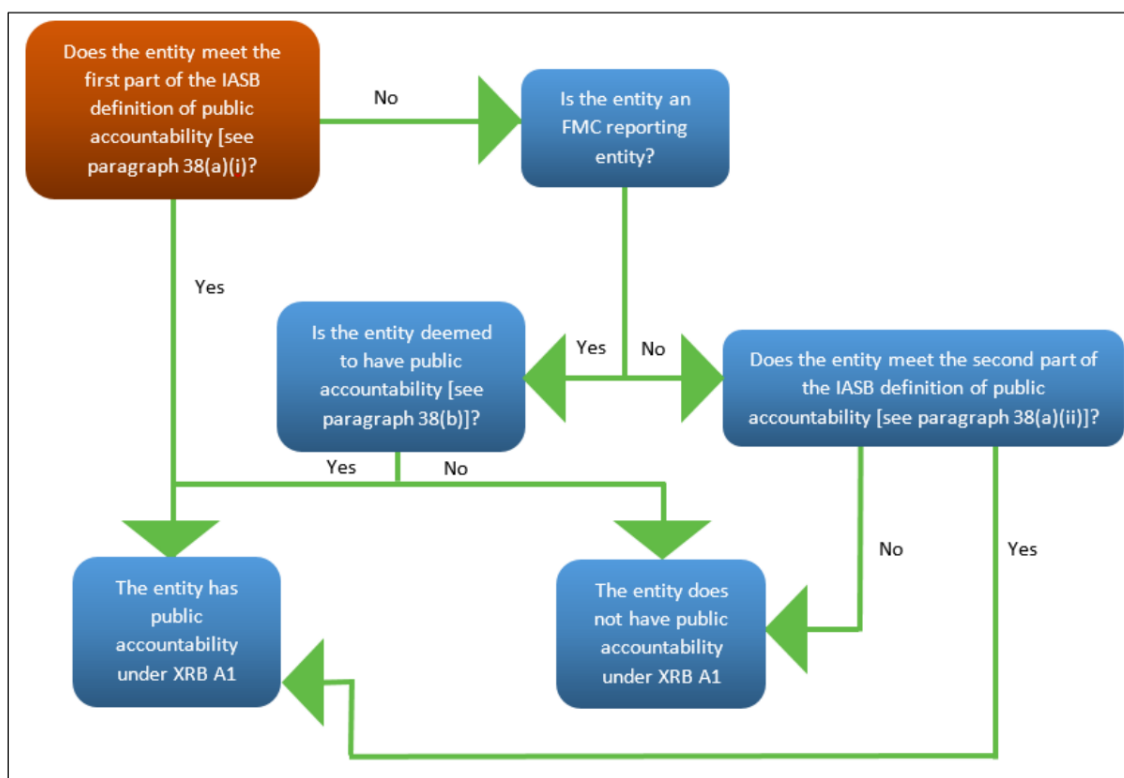
Appendix B — EG A1 Guidance on Determining Whether an Entity has Public Accountability

- B1. EG A1 provides guidance on determining which standard and which tier to apply when preparing general purpose financial reports.
- B2. Extracts from EG A1 regarding the determination of whether a reporting entity has “public accountability” for Tier 1 reporting purposes are provided below.

For-profit entities

- 38 Two groups of for-profit entities must report in accordance with Tier 1 requirements: entities that have “public accountability”; and public sector for-profit entities that have total expenses greater than \$30 million. For the purpose of the tier criteria, public accountability has a particular technical meaning which is defined in XRB A1. In general, an entity has public accountability if it:
- (a) Meets the International Accounting Standards Board (IASB) definition of public accountability, i.e.:
 - (i) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
 - (ii) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion); or
 - (b) Is deemed to have public accountability in New Zealand under XRB A1, with the following being so deemed: an FMC reporting entity or a class of FMC reporting entities that is considered to have a higher level of public accountability than other FMC reporting entities under the Financial Markets Conduct Act 2013 or by a notice issued by the Financial Markets Authority (FMA) under that Act.
- 39 However, XRB A1 also recognises that the FMA, under the Financial Markets Conduct Act 2013, has the ability to vary the level of public accountability of an FMC reporting entity. Therefore, an FMC reporting entity is not considered to have public accountability under the second part of the IASB definition (see paragraph 38(a)(ii)) unless it is deemed to have public accountability (see paragraph 38(b)). Figure 2 provides a decision tree to assist an entity identify whether it has public accountability.

Figure 2: Identifying Public Accountability



Public benefit entities

- 59 Two groups of PBEs must report in accordance with Tier 1 requirements: entities that have public accountability; and entities that have total expenses greater than \$30 million.
- 60 For the purpose of the tier criteria, public accountability has a particular technical meaning which is defined in XRB A1. The definition, is the same as that used for the for-profit tier structure. In general, an entity has public accountability if it:
- (a) Meets the IASB definition of public accountability, i.e.:
 - (i) its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or
 - (ii) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses (most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks would meet this second criterion); and
 - (b) Is deemed to have public accountability in New Zealand under XRB A1, with the following being so deemed: an FMC reporting entity or a class of FMC reporting entities that is considered to have a higher level of public accountability than other FMC reporting entities under the Financial Markets Conduct Act 2013 or by a notice issued by the FMA under that Act.
- 61 However, XRB A1 also recognises that the FMA, under the Financial Markets Conduct Act 2013, has the ability to vary the level of public accountability of an FMC reporting entity. Therefore, an FMC reporting entity is not considered to have public accountability under the second part of the IASB definition (see paragraph 60(a)(ii)) unless it is deemed to have public accountability (see

paragraph 60(b)). Figure 2 provides a decision tree to assist an entity identify whether it has public accountability.

- 62 It is important to note that the term public accountability is used in the tier framework in a particular technical way. This technical meaning is quite different from the way in which the term “publicly accountable” is normally used in the PBE context and in which it was used prior to 2011 in the Accounting Standards Framework.
- 63 One element of the Tier 1 public accountability test is where entities hold assets in a fiduciary capacity for a broad group of outsiders as one of their primary businesses. Applying this test in a PBE context will require the application of judgement. In doing so it is important to consider the three aspects of the test: the assets must be held in a fiduciary capacity; they must be held for a broad group of persons or organisations that are external to the reporting entity (and who are not involved in its management); and the assets must be held as part of the entity’s primary business. An example of a situation where these three aspects would typically be met is life insurance or superannuation schemes.
- 64 Some PBEs hold assets in a fiduciary capacity for a broad group of outsiders but do so in a way that is incidental to their primary business. In the public sector context, this is typically the case for central government entities that hold and/or manage trust money under the Public Finance Act 1989 (for example the Department of Corrections holds money for inmates). In the majority of cases the holding or management of money is not the entity’s primary business (i.e. its primary function) and therefore would not result in the entity meeting the public accountability test.
- 65 In the not-for-profit PBE context, this is typically the case where an entity that holds and/or manages trust money entrusted to it by a client, customer or member who is not involved in the management of the entity (for example, welfare benefits held on behalf of beneficiaries as part of the entity providing welfare services to the beneficiaries). In the majority of cases the holding or management of money is not the entity’s primary business (i.e. its primary function) and therefore would not result in the entity meeting the public accountability test.

Appendix C — AASB Tier 1 Reporting Criteria

- C1. AASB 1053 *Application of Tiers of Australian Accounting Standards*, establishes two tiers of reporting requirements for preparing general purpose financial statements.
- (a) Tier 1: Australian Accounting Standards;³⁶ and
 - (b) Tier 2: Australian Accounting Standards – Simplified Disclosures.
- C2. Paragraph 11 and 12 of AASB 1053 sets out the reporting entities who are required to apply Tier 1 reporting requirements.

11	The following types of entities shall prepare general purpose financial statements that comply with Tier 1 reporting requirements:
(a)	for-profit private sector entities that have public accountability and are required by legislation to prepare financial statements that comply with either Australian Accounting Standards or accounting standards; and
(b)	the Australian Government and State, Territory and Local Governments.
12	Subject to AASB 1049 <i>Whole of Government and General Government Sector Financial Reporting</i> , General Central Government Sector entities and State and Territory Governments shall apply Tier 1 reporting requirements.

- C3. We note that the AASB 1053 Tier 1 criteria does not include the same deeming provisions as provided in XRB A1. However, Appendix B³⁷ of AASB 1053 provides guidance on applying the definition of public accountability which has the same effect.

B2	The following for-profit entities are deemed to have public accountability:
(a)	disclosing entities, even if their debt or equity instruments are not traded in a public market or are not in the process of being issued for trading in a public market;
(b)	co-operatives that issue debentures;
(c)	registered managed investment schemes;
(d)	superannuation plans regulated by the Australian Prudential Regulation Authority (APRA) other than Small APRA Funds as defined by APRA Superannuation Circular No. III.E.1 Regulation of Small APRA Funds, December 2000; and
(e)	authorised deposit-taking institutions.

- C4. To establish Tier 1 reporting criteria, AASB 1053 has based its definition of public accountability on the IASB definition.

AASB 1053 – Appendix A, Defined Terms	
Public accountability – an entity has public accountability if:	
(a)	its debt or equity instruments are traded in a public market or it is in the process of issuing such instruments for trading in a public market (a domestic or foreign stock exchange or an over-the-counter market, including local and regional markets); or

³⁶ Tier 1 incorporates IFRSs issued by the IASB and include requirements that are specific to Australian entities.

³⁷ Appendix B is an integral part of AASB 1053.

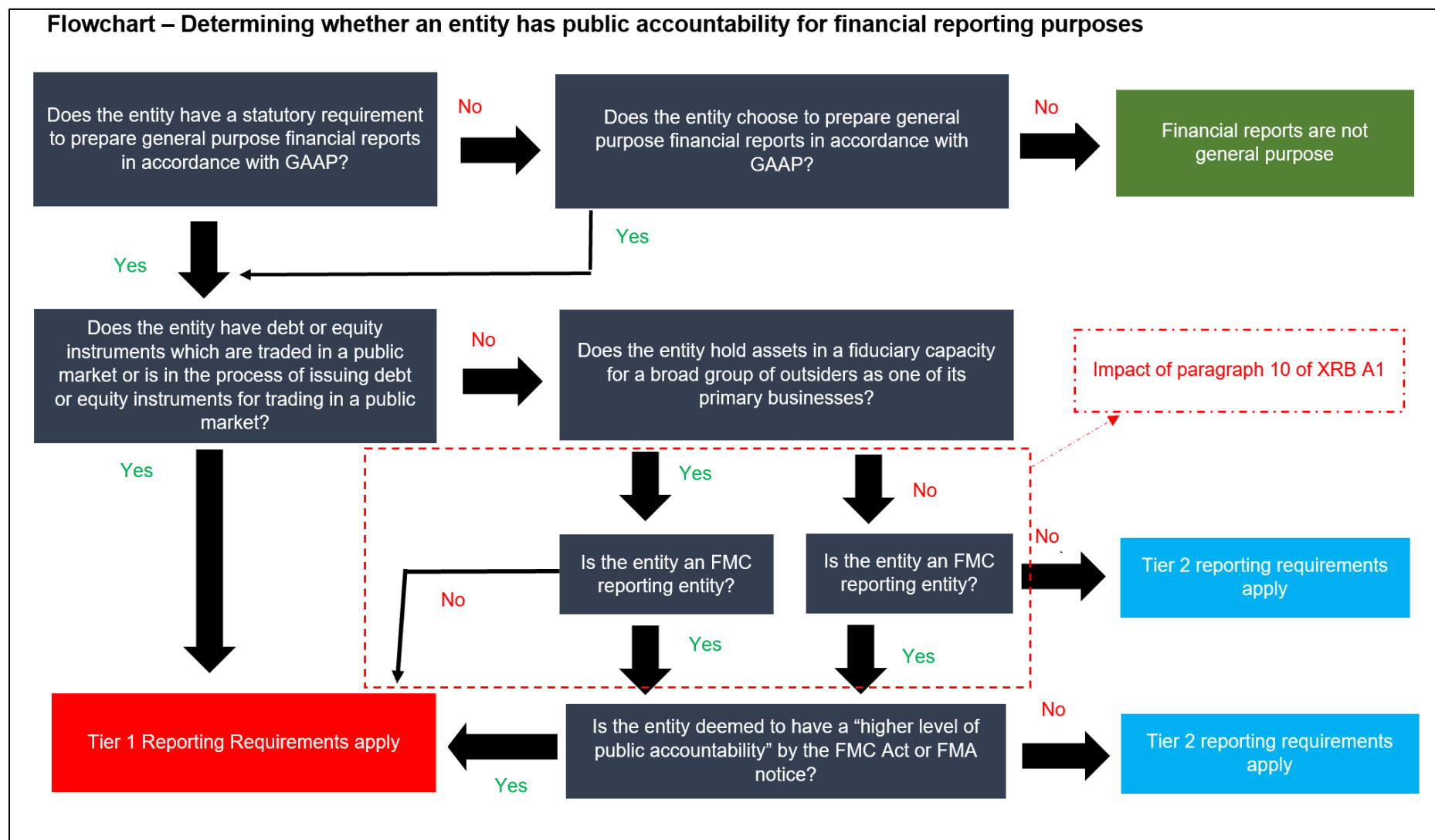
(b) it holds assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses.

- C5. We note that paragraph (b) of the AASB 1053 definition of public accountability has not used the bracketed text from the IASB Definition – “(most banks, credit unions, insurance companies, securities brokers/dealers, mutual funds, and investment banks would meet this second criterion)”. However, these examples are provided in Appendix B of AASB 1053,³⁸ which provides guidance on applying the definition of public accountability.

B4 Examples of entities that hold assets in a fiduciary capacity for a broad group of outsiders as one of its primary businesses are most likely to include banks, credit unions, insurance companies, securities brokers/dealers, mutual funds and investment banks.

³⁸ Appendix B is an integral part of AASB 1053.

Appendix D — Flowchart of current Tier 1 reporting criteria



NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	4.1
Meeting date:	9 February 2022
Subject:	Fee-Related Matters
Date:	16 December 2021
Prepared By:	Sharon Walker

Action Required

For Information Purposes Only

Agenda Item Objectives

1. The objective of this agenda item is for the Board to approve:
 - Amendments to Professional and Ethical Standard 1: Fee-Related Matters
 - The signing memorandum

Background

2. The IESBA released its *Fee-Related Matters* exposure draft concurrent with its proposed non-assurance services (NAS) revisions in January 2020. Together the proposed revisions are aimed at strengthening the international independence Standards.
3. The IESBA proposed fee revisions to the Code included modifications to:
 - Articulate and address the issue of threats to independence created when fees are negotiated and paid by the audit or assurance client.
 - Clarify that the audit fee should be a standalone fee within the spectrum of total fees from the audit client so that the provision of services other than audit does not influence the level of audit fee.
 - Provide guidance for firms to evaluate and address the threats to independence created when a large proportion of total fees charged by the firm or network firms to an audit client is for services other than audit.
 - Enhance the provisions regarding fee dependency both when audit clients are public interest entities (PIEs) and when they are non-PIEs, including establishing a threshold for addressing threats in the case of non-PIE audit clients.
 - Require the firm to cease to be the auditor for a PIE audit client if circumstances of fee dependency continue beyond a certain period.
 - Enhance transparency with regard to fee-related information for PIE audit clients to assist those charged with governance and the public in forming their views about the firm's independence.

- Enhance the robustness of guidance in the Code regarding factors to evaluate the level of threats created when fees are paid by an audit or assurance client and safeguards to address such threats.
4. At the time of exposure, no compelling reason changes to the fees proposals were identified.
 5. The IESBA finalised its *Fee-Related Matters* revisions to the Code without substantive change and issued the final standard in April 2021. The revised provisions are effective from December 2022.
 6. At its [February 2021 meeting](#)¹, staff presented the Board with an overview of the key issues raised in the consultation and how they were addressed by the IESBA in finalising the fees provisions and highlighted if, and how, matters arising from the NZAuASB submission were addressed. The February minutes state that “Regarding the Fees amendments, no compelling reason changes have been identified. A final standard will be considered by the Board at the same time as the NAS proposals are finalised in New Zealand.”
 7. Staff consider it is timely to consider the New Zealand Fees Standard, in light of recent discussions by the NZASB. Given ongoing delays in finalising the NAS standard, we also consider it timely to finalise the fee standard given that the revised IESBA standard is effective from December 2022.
 8. The Board has previously agreed to add a footnote cross reference from the revised fee text in the Code to the disclosure requirements in the accounting standards.
 9. The amendments to PES 1 are presented in agenda item 4.2. Sections 410 and 905 of the Code are replaced. Conforming amendments are made to sections 400, 120, 270, 320 and 330. Underline and strikethrough are used to mark the changes. The revisions to the Code are prepared on the basis that the NZASB commences a project to revise the disclosure requirements (as discussed in the following paragraphs).

NZASB Activity

10. At its December 2021 meeting, the NZASB agreed to commence a project to develop enhanced audit fee disclosure requirements by proposing amendments to its domestic standards for for-profit and public benefit entities. The NZASB further agreed to move ahead with this project and issue proposals ahead of the AASB completing their auditor remuneration disclosure project.² The NZASB had previously agreed to complete this project in conjunction with the AASB but at this meeting agreed to move forward and issue proposals ahead of the AASB completing its auditor remuneration disclosure project. Refer to agenda item 3, Update from NZASB Chair.

Australian Activity

11. The Board has also been closely tracking the activities of the APESB in relation to its project on fee-related matters.
12. In May 2021, the APESB issued an [exposure draft amending APES 110](#)⁴ to incorporate changes made by the IESBA and to address key recommendations from the PJC inquiry⁵. Of note in the APESB’s exposure draft is the addition of application material describing the different categories of services that may be provided by the auditor (recommendation 3 of the PJC inquiry).

¹ February 2021 NZAuASB meeting, agenda item 3

² The AASB is in the advanced stages of developing proposed improved audit fee disclosure requirements for Australian entities, however this project has been paused while it waits for the Australian Federal Government response to the PJC inquiry recommendations. The AASB is not in a position to give an indication of when it could be in a position to issue proposed disclosure amendments.

⁴ APES 110, *Code of Ethics for Professional Accountants (including International Independence Standards)*

⁵ Inquiry into the regulation of the auditing profession in Australia undertaken by the Parliamentary Joint Committee on Corporations and Financial Services (PJC Inquiry)

13. The consultation period ended on 31 August 2021 with the APESB receiving 19 submissions from a broad range of respondents. In relation to the inclusion of the fee categories, respondents were generally supportive of the proposed categories of services but were concerned that the proposed revisions to include fee categories in the Code would place the requirement to disclose fees on the auditor rather than on those charged with governance of the entity. Several respondents also suggested that the APESB should work with the Australian Accounting Standards Board (AASB) to ensure the fee disclosures are set out in the accounting standards.
14. The AASB, AUASB and APESB are part of a working group established to address the recommendations raised as part of the PJC inquiry. The disclosure and fee categories has been discussed by this working group. The AASB will establish disclosure requirements for the accounting standards for the entity and APESB will develop guidance for auditors.
15. APESB technical staff are working with the AASB's technical staff to ensure consistency with the fee categories to be included in the accounting standards and the Code.
16. The next meeting of the APESB will be held in March 2022 where the APESB is expected to further consider the submissions received in response to the fees consultation.

Matters to Consider

NZ Contextual Changes

17. In New Zealand we make contextual changes to the IESBA final text to "New Zealandise" the standard. In the context of the Code, these contextual changes are more substantive than for the ISAs, given that the Code is written for professional accountants. Contextual changes include those made as a result of the mandate of the NZAuASB (e.g., change professional accountant to assurance practitioner), other changes (e.g., terminology appropriate for New Zealand) or spelling changes. These changes are indicated in the Fees Standard using track changes.
18. Part 4A of the Code applies to both audit and review engagements. In Part 4A the IESBA uses the terms "audit," "audit team," "audit engagement," "audit client," and "audit report" to apply equally to review, review team, review engagement, review client, and review engagement report. Historically in New Zealand, we have made contextual changes throughout Part 4A to refer to both audit and review rather than the IESBA convention of using "audit" generically to refer to audit or review. It has been the view of the Board that referring to both audit and/or review adds clarity to the Code.
19. In its conforming amendments, the IESBA has modified the application of Part 4A equally to audit and review engagements by adding the words "unless otherwise stated", i.e., Part 4A applied to both audit and review engagements unless otherwise stated. Paragraph R410.33 establishes an exception to the concept of equal applicability. R410.33 states, "... As an exception to those requirements, the firm may determine not to communicate or pursue disclosure of such information where a review client is not also an audit client."
20. In preparing the amendments to Professional and Ethical Standard 1, staff initially applied the New Zealand contextual change to modify references to audit to audit or review throughout sections 410 and 905. However, in doing so, we found that, rather than adding clarity, these sections became complicated and difficult to read, especially in light of the recent conforming amendments made by the IESBA. In light of these new developments staff recommend that the Board adopt the IESBA convention to use the term "audit," "audit team," "audit engagement," "audit client," and "audit report" to apply equally to review, review team, review engagement, review client, and review engagement report.

21. Does the Board agree with the staff recommendation? If so, staff proposes to commence a project to amend the remainder of extant Part 4A to reflect the change consistently. In relation to this proposal, the Board is asked to consider whether such a change would require exposure given the editorial/contextual nature of the change.

Recommendations

22. We recommend that the Board approve:

- Amendments to Professional and Ethical Standard 1: Fee-Related Matters
- The signing memorandum

Material Presented

Agenda item 4.1	Board Meeting Summary Paper
Agenda item 4.2	NZ Fees Amendments (For approval)
Agenda item 4.3	Signing Memorandum
Agenda item 4.4	NZ Fees Amendments (tracked from IESBA text for information)



AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1: *Revisions to the Fee-Related Provisions of the Code*

This Standard was issued on xx month 2022 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2019, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on xx month 2022.

The amendments in this Standard are effective from 15 December 2022. Early adoption will be permitted.

In finalising this Standard, the New Zealand Auditing and Assurance Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued to amend the fee-related provisions of Professional and Ethical Standard 1.

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REVISIONS TO THE FEE-RELATED PROVISIONS OF THE CODE

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PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Introduction

General

400.1 It is in the public interest and required by the Code that assurance practitioners be independent when performing audit or review engagements.

400.2 *[Amended by the NZAuASB]*

NZ 400.2 This Part applies to both audit and review engagements **[unless otherwise stated]**.

NZ 400.2.1 This Part also applies to engagements where assurance is provided to an offer document of a FMC reporting entity considered to have a higher level of public accountability in respect of historical financial information, prospective or pro-forma financial information, or a combination of these.

[Paragraphs 400.3 to R400.89 of extant Section 400 remain unchanged.]

Commented [SW1]: Refer Board meeting summary paper "matters to consider"

SECTION 410

FEES

Introduction

410.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

410.2 Section 330 sets out application material relevant to applying the conceptual framework where the level and nature of fee and other remuneration arrangements might create a self-interest threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence arising from fees charged to audit clients.

Requirements and Application Material

General

410.3 A1 Fees for **[assurance services]** are usually negotiated with and paid by an audit client and might create threats to independence. This practice is generally recognised and accepted by intended users of financial statements.

410.3 A2 When the audit client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. As transparency can serve to better inform the views and decisions of those charged with governance and a wide range of stakeholders, this section

Commented [SW2]: NZ contextual change. Relates to limited mandate.

provides for disclosure of fee-related information to both those charged with governance and stakeholders more generally for audit clients that are public interest entities.

410.3 A3 For the purposes of this section, audit fees comprise fees or other types of remuneration for an audit or review of financial statements. Where reference is made to the fee for the audit of the financial statements, this does not include any fee for an audit of special purpose financial statements or a review of financial statements. (Ref: Para. R410.23(a), 410.25 A1 and R410.31(a))

Fees Paid by an Audit Client

410.4 A1 When fees are negotiated with and paid by an audit client, this creates a self-interest threat and might create an intimidation threat to independence.

410.4 A2 The application of the conceptual framework requires that before a firm or network firm accepts an audit or any other engagement for an audit client, the firm determines whether the threats to independence created by the fees proposed to the client are at an acceptable level. The application of the conceptual framework also requires the firm to re-evaluate such threats when facts and circumstances change during the engagement period for the audit.

410.4 A3 Factors that are relevant in evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client include:

- The level of the fees and the extent to which they have regard to the resources required, taking into account the firm's commercial and market priorities.
- Any linkage between fees for the audit and those for services other than audit and the relative size of both elements.
- The extent of any dependency between the level of the fee for, and the outcome of, the service.
- Whether the fee is for services to be provided by the firm or a network firm.
- The level of the fee in the context of the service to be provided by the firm or a network firm.
- The operating structure and the compensation arrangements of the firm and network firms.
- The significance of the client, or a third party referring the client, to the firm, network firm, partner or office.
- The nature of the client, for example whether the client is a public interest entity.
- The relationship of the client to the related entities to which the services other than audit are provided, for example when the related entity is a sister entity.
- The involvement of those charged with governance in appointing the auditor and agreeing fees, and the apparent emphasis they and client management place on the quality of the audit and the overall level of the fees.
- Whether the level of the fee is set by an independent third party, such as a regulatory body.
- Whether the quality of the firm's audit work is subject to the review of an independent third party, such as an oversight body.

410.4 A4 The conditions, policies and procedures described in paragraph 120.15 A3 (particularly the existence of a quality management system designed and implemented by the firm in accordance with quality management standards issued by the New Zealand Auditing and Assurance Standards Board) might also impact the evaluation of whether the threats to independence are at an acceptable level.

410.4 A5 The requirements and application material that follow identify circumstances which might need to be further evaluated when determining whether the threats are at an acceptable level. For those circumstances, application material includes examples of additional factors that might be relevant in evaluating the threats.

Level of Audit or Review Fees

410.5 A1 Determining the fees to be charged to an audit or review client, whether for audit, review or other services, is a business decision of the firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.

410.5 A2 Factors that are relevant in evaluating the level of self-interest and intimidation threats created by the level of the audit fee paid by the audit client include:

- The firm's commercial rationale for the audit fee.
- Whether undue pressure has been, or is being, applied by the client to reduce the audit fee.

410.5 A3 Examples of actions that might be safeguards to address such threats include:

- Having an appropriate reviewer who does not take part in the audit engagement assess the reasonableness of the fee proposed, having regard to the scope and complexity of the engagement.
- Having an appropriate reviewer who did not take part in the audit engagement review the work performed.

Impact of Other Services Provided to an Audit Client

R410.6 Subject to paragraph R410.7, a firm shall not allow the audit fee to be influenced by the provision of services other than audit to an audit client by the firm or a network firm.

410.6 A1 The audit fee ordinarily reflects a combination of matters, such as those identified in paragraph 410.23 A1. However, the provision of other services to an audit client is not an appropriate consideration in determining the audit fee.

R410.7 As an exception to paragraph R410.6, when determining the audit fee, the firm may take into consideration the cost savings achieved as a result of experience derived from the provision of services other than audit to an audit client.

Contingent Fees

410.8 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an

Commented [SW3]: NZ contextual change to replace technical and professional standards with standards issued by the XRB, NZAuASB and NZASB

intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

R410.9 A firm shall not charge directly or indirectly a contingent fee for an audit engagement.

R410.10 A firm or network firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to an audit client, if:

- (a) The fee is charged by the firm expressing the opinion on the financial statements and the fee is material or expected to be material to that firm;
- (b) The fee is charged by a network firm that participates in a significant part of the audit and the fee is material or expected to be material to that firm; or
- (c) The outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgement related to the audit of a material amount in the financial statements.

410.10 A1 Paragraphs R410.9 and R410.10 preclude a firm or a network firm from entering into certain contingent fee arrangements with an audit client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to an audit client, it might still impact the level of the self-interest threat.

410.10 A2 Factors that are relevant in evaluating the level of such a threat include:

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the contingent fee depends.
- Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the financial statements.

410.10 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed.
- Obtaining an advance written agreement with the client on the basis of remuneration.

Total Fees – Proportion of Fees for Services Other than Audit to Audit Fee

410.11 A1 The level of the self-interest threat might be impacted when a large proportion of fees charged by the firm or network firms to an audit client is generated by providing services other than audit to the client, due to concerns about the potential loss of either the audit engagement or other services. Such circumstances might also create an intimidation threat. A further consideration is a perception that the firm or network firm focuses on the non-audit relationship, which might create a threat to the auditor's independence.

410.11 A2 Factors that are relevant in evaluating the level of such threats include:

- The ratio of fees for services other than audit to the audit fee.

- The length of time during which a large proportion of fees for services other than audit to the audit fee has existed.
- The nature, scope and purposes of the services other than audit, including:
 - Whether they are recurring services.
 - Whether law or regulation mandates the services to be performed by the firm.

410.11 A3 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Having an appropriate reviewer who was not involved in the audit or the service other than audit review the relevant audit work.
- Reducing the extent of services other than audit provided to the audit client.

Total Fees – Overdue Fees

410.12 A1 The level of the self-interest threat might be impacted if fees payable by an audit client for the audit or services other than audit are overdue during the period of the audit engagement.

410.12 A2 It is generally expected that the firm will obtain payment of such fees before the audit report is issued.

410.12 A3 Factors that are relevant in evaluating the level of such a self-interest threat include:

- The significance of the overdue fees to the firm.
- The length of time the fees have been overdue.
- The firm's assessment of the ability and willingness of the audit client to pay the overdue fees.

410.12 A4 Examples of actions that might be safeguards to address such a threat include:

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the audit engagement review the audit work.

R410.13 When a significant part of the fees due from an audit client remains unpaid for a long time, the firm shall determine:

- (a) Whether the overdue fees might be equivalent to a loan to the client, in which case the requirements and application material set out in section 511 are applicable; and
- (b) Whether it is appropriate for the firm to be re-appointed or continue the audit engagement.

Total Fees – Fee Dependency

All Audit Clients

410.14 A1 When the total fees generated from an audit client by the firm expressing the audit opinion represent a large proportion of the total fees of that firm, the dependence on, and concern about the potential loss of, fees from audit and other services from that client impact the level of the self-interest threat and create an intimidation threat.

410.14 A2 In calculating the total fees of the firm, the firm might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate.

410.14 A3 Factors that are relevant in evaluating the level of such self-interest and intimidation threats include:

- The operating structure of the firm.
- Whether the firm is expected to diversify such that any dependence on the audit client is reduced.

410.14 A4 Examples of actions that might be safeguards to address such threats include:

- Having an appropriate reviewer who is not a member of the firm review the audit work.
- Reducing the extent of services other than audit provided to the audit client.
- Increasing the client base of the firm to reduce dependence on the client.
- Increasing the extent of services provided to other clients.

410.14 A5 A self-interest or intimidation threat is created when the fees generated by a firm from an audit client represent a large proportion of the revenue of one partner or one office of the firm.

410.14 A6 Factors that are relevant in evaluating the level of such threats include:

- The qualitative and quantitative significance of the audit client to the partner or office.
- The extent to which the compensation of the partner, or the partners in the office, is dependent upon the fees generated from the client.

410.14 A7 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Having an appropriate reviewer who was not involved in the audit engagement review the audit work.
- Ensuring that the compensation of the partner is not significantly influenced by the fees generated from the client.
- Reducing the extent of services other than audit provided by the partner or office to the audit client.
- Increasing the client base of the partner or the office to reduce dependence on the client.
- Increasing the extent of services provided by the partner or the office to other clients.

Audit Clients that are Not Public Interest Entities

R410.15 When for each of five consecutive years total fees from an audit client that is not a public interest entity represent, or are likely to represent, more than 30% of the total fees received by the firm, the firm shall determine whether either of the following actions might be a safeguard to reduce the threats created to an acceptable level, and if so, apply it:

- (a) Prior to the audit opinion being issued on the fifth year's financial statements, have an assurance practitioner, who is not a member of the firm expressing the opinion on the financial statements, review the fifth year's audit work; or

- (b) After the audit opinion on the fifth year's financial statements has been issued, and before the audit opinion is issued on the sixth year's financial statements, have an assurance practitioner, who is not a member of the firm expressing the opinion on the financial statements, or a professional body review the fifth year's audit work.

R410.16 If the total fees described in paragraph R410.15 continue to exceed 30%, the firm shall each year determine whether either of the actions in paragraph R410.15 applied to the relevant year's engagement might be a safeguard to address the threats created by the total fees received by the firm from the client, and if so, apply it.

R410.17 When two or more firms are engaged to conduct an audit of the client's financial statements, the involvement of the other firm in the audit may be regarded each year as an action equivalent to that in paragraph R410.15 (a), if:

- (a) The circumstances addressed by paragraph R410.15 apply to only one of the firms expressing the audit opinion; and
- (b) Each firm performs sufficient work to take full individual responsibility for the audit opinion.

Audit Clients that are Public Interest Entities

R410.18 When for each of two consecutive years the total fees from an audit client that is a public interest entity represent, or are likely to represent, more than 15% of the total fees received by the firm, the firm shall determine whether, prior to the audit opinion being issued on the second year's financial statements, a review, consistent with the objective of an engagement quality review, performed by an assurance practitioner who is not a member of the firm expressing the opinion on the financial statements ("pre-issuance review") might be a safeguard to reduce the threats to an acceptable level, and if so, apply it.

R410.19 When two or more firms are engaged to conduct an audit of the client's financial statements, the involvement of the other firm in the audit may be regarded each year as an action equivalent to that in paragraph R410.18, if:

- (a) The circumstances addressed by paragraph R410.18 apply to only one of the firms expressing the audit opinion; and
- (b) Each firm performs sufficient work to take full individual responsibility for the audit opinion.

R410.20 Subject to paragraph R410.21, if the circumstances described in paragraph R410.18 continue for five consecutive years, the firm shall cease to be the auditor after the audit opinion for the fifth year is issued.

R410.21 As an exception to paragraph R410.20, the firm may continue to be the auditor after five consecutive years if there is a compelling reason to do so having regard to the public interest, provided that:

- (a) The firm consults with a regulatory or professional body in the relevant jurisdiction and it concurs that having the firm continue as the auditor would be in the public interest; and

- (b) Before the audit opinion on the sixth and any subsequent year's financial statements is issued, the firm engages an assurance practitioner, who is not a member of the firm expressing the opinion on the financial statements, to perform a pre-issuance review.

410.21 A1 A factor which might give rise to a compelling reason is the lack of viable alternative firms to carry out the audit engagement, having regard to the nature and location of the client's business.

Transparency of Information Regarding Fees for Audit Clients that are Public Interest Entities

Communication About Fee-related Information with Those Charged with Governance

410.22 A1 Communication by the firm of fee-related information (for both audit and services other than audit) with those charged with governance assists in their assessment of the firm's independence. Effective communication in this regard also allows for a two-way open exchange of views and information about, for example, the expectations that those charged with governance might have regarding the scope and extent of audit work and impact on the audit fee.

Fees for the Audit of the Financial Statements

R410.23 Subject to paragraph R410.24, the firm shall communicate in a timely manner with those charged with governance of an audit client that is a public interest entity:

- (a) Fees paid or payable to the firm or network firms for the audit of the financial statements on which the firm expresses an opinion; and
- (b) Whether the threats created by the level of those fees are at an acceptable level, and if not, any actions the firm has taken or proposes to take to reduce such threats to an acceptable level.

410.23 A1 The objective of such communication is to provide the background and context to the fees for the audit of the financial statements on which the firm expresses an opinion to enable those charged with governance to consider the independence of the firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- Considerations affecting the level of the fees such as:
 - The scale, complexity and geographic spread of the audit client's operations.
 - The time spent or expected to be spent commensurate with the scope and complexity of the audit.
 - The cost of other resources utilised or expended in performing the audit.
 - The quality of record keeping and processes for financial statements preparation.
- Adjustments to the fees quoted or charged during the period of the audit, and the reasons for any such adjustments.
- Changes to laws and regulations and professional standards relevant to the audit that impacted the fees.

410.23 A2 The firm is encouraged to provide such information as soon as practicable and communicate proposed adjustments as appropriate.

R410.24 As an exception to paragraph R410.23, the firm may determine not to communicate the information set out in paragraph R410.23 to those charged with governance of an entity that is (directly or indirectly) wholly-owned by another public interest entity provided that:

- (a) The entity is consolidated into group financial statements prepared by that other public interest entity; and
- (b) The firm or a network firm expresses an opinion on those group financial statements.

Fees for Other Services

R410.25 Subject to paragraph R410.27, the firm shall communicate in a timely manner with those charged with governance of an audit client that is a public interest entity:

- (a) The fees, other than those disclosed under paragraph R410.23 (a), charged to the client for the provision of services by the firm or a network firm during the period covered by the financial statements on which the firm expresses an opinion. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the financial statements on which the firm will express an opinion; and
- (b) As set out in paragraph 410.11 A1, where the firm has identified that there is an impact on the level of the self-interest threat or that there is an intimidation threat to independence created by the proportion of fees for services other than audit relative to the audit fee:
 - (i) Whether such threats are at an acceptable level; and
 - (ii) If not, any actions that the firm has taken or proposes to take to reduce such threats to an acceptable level.

410.25 A1 The objective of such communication is to provide the background and context to the fees for other services to enable those charged with governance to consider the independence of the firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- The amount of fees for other services that are required by law or regulation.
- The nature of other services provided and their associated fees.
- Information on the nature of the services provided under a general policy approved by those charged with governance and associated fees.
- The proportion of fees referred to in paragraph R410.25(a) to the aggregate of the fees charged by the firm and network firms for the audit of the financial statements on which the firm expresses an opinion.

R410.26 The firm shall include in the communication required by paragraph R410.25(a) the fees, other than those disclosed under paragraph R410.23(a), charged to any other related entities over which the audit client has direct or indirect control for the provision of services by the firm or a

network firm, when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm's independence.

410.26 A1 Factors the firm might consider when determining whether the fees, other than those disclosed under paragraph R410.23(a), charged to such other related entities, individually and in the aggregate, for the provision of services by the firm or a network firm are relevant to the evaluation of the firm's independence include:

- The extent of the audit client's involvement in the appointment of the firm or network firm for the provision of such services, including the negotiation of fees.
- The significance of the fees paid by the other related entities to the firm or a network firm.
- The proportion of fees from the other related entities to the fees paid by the client.

R410.27 As an exception to paragraph R410.25, the firm may determine not to communicate the information set out in paragraph R410.25 to those charged with governance of an entity that is (directly or indirectly) wholly-owned by another public interest entity provided that:

- (a) The entity is consolidated into group financial statements prepared by that other public interest entity; and
- (b) The firm or a network firm expresses an opinion on those group financial statements.

Fee Dependency

R410.28 Where the total fees from an audit client that is a public interest entity represent, or are likely to represent, more than 15% of the total fees received by the firm, the firm shall communicate with those charged with governance:

- (a) That fact and whether this situation is likely to continue;
- (b) The safeguards applied to address the threats created, including, where relevant, the use of a pre-issuance review (Ref: Para R410.18); and
- (c) Any proposal to continue as the auditor under paragraph R410.21.

Public Disclosure of Fee-related Information

410.29 A1 In view of the public interest in the audits of public interest entities, it is beneficial for stakeholders to have visibility about the professional relationships between the firm and the audit client which might reasonably be thought to be relevant to the evaluation of the firm's independence. In a wide number of jurisdictions, there already exist requirements regarding the disclosure of fees by an audit client for both audit and services other than audit paid and payable to the firm and network firms. Such disclosures often require the disaggregation of fees for services other than audit into different categories.

R410.30 If laws and regulations do not require an audit client to disclose audit fees, fees for services other than audit paid or payable to the firm and network firms and information about fee

dependency, the firm shall discuss with those charged with governance of an audit client that is a public interest entity¹;

Commented [SW4]: NZ footnote re disclosure requirements added as previously agreed by the Board.

- (a) The benefit to the client's stakeholders of the client making such disclosures that are not required by laws and regulations in a manner deemed appropriate, taking into account the timing and accessibility of the information; and
- (b) The information that might enhance the users' understanding of the fees paid or payable and their impact on the firm's independence.

410.30 A1 Examples of information relating to fees that might enhance the users' understanding of the fees paid or payable and their impact on the firm's independence include:

- Comparative information of the prior year's fees for audit and services other than audit.
- The nature of services and their associated fees as disclosed under paragraph R410.31(b).
- Safeguards applied when the total fees from the client represent or are likely to represent more than 15% of the total fees received by the firm.

R410.31 After the discussion with those charged with governance as set out in paragraph R410.30, to the extent that the audit client that is a public interest entity does not make the relevant disclosure, subject to paragraph R410.32, the firm shall publicly disclose:

- (a) Fees paid or payable to the firm and network firms for the audit of the financial statements on which the firm expresses an opinion;
- (b) Fees, other than those disclosed under (a), charged to the client for the provision of services by the firm or a network firm during the period covered by the financial statements on which the firm expresses an opinion. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the financial statements on which the firm will express an opinion;
- (c) Any fees, other than those disclosed under (a) and (b), charged to any other related entities over which the audit client has direct or indirect control for the provision of services by the firm or a network firm when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm's independence; and
- (d) If applicable, the fact that the total fees received by the firm from the audit client represent, or are likely to represent, more than 15% of the total fees received by the firm for two consecutive years, and the year that this situation first arose.

410.31 A1 The firm might also disclose other information relating to fees that will enhance the users' understanding of the fees paid or payable and the firm's independence, such as the examples described in paragraph 410.30 A1.

410.31 A2 Factors the firm might consider when making the determination required by paragraph R410.31(c) are set out in paragraph 410.26 A1.

¹ FRS 44 *New Zealand Additional Disclosures* and PBE IPSAS 1 *Presentation of Financial Statements* issued by the New Zealand Accounting Standards Board establish the disclosure requirements in New Zealand.

410.31 A3 When disclosing fee-related information in compliance with paragraph R410.31, the firm might disclose the information in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders, for example:

- On the firm's website.
- In the firm's transparency report.
- In an audit quality report.
- Through targeted communication to specific stakeholders, for example a letter to the shareholders.
- In the auditor's report.

R410.32 As an exception to paragraph R410.31, the firm may determine not to publicly disclose the information set out in paragraph R410.31 relating to:

- (a) A parent entity that also prepares group financial statements provided that the firm or a network firm expresses an opinion on the group financial statements; or
- (b) An entity (directly or indirectly) wholly-owned by another public interest entity provided that:
 - (i) The entity is consolidated into group financial statements prepared by that other public interest entity; and
 - (ii) The firm or a network firm expresses an opinion on those group financial statements.

Considerations for Review Clients

R410.33 This section sets out requirements for a firm to communicate fee-related information of an audit client that is a public interest entity and to disclose publicly fee-related information to the extent that the client does not disclose such information. As an exception to those requirements, the firm may determine not to communicate or pursue disclosure of such information where a review client is not also an audit client.

Commented [SW5]: Refer Board meeting summary paper "matters to consider"

PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

SECTION 905

FEES

Introduction

- 905.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.
- 905.2 Fees or other types of remuneration might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence arising from fees charged to assurance clients.

Requirements and Application Material

Fees Paid by an Assurance Client

- 905.3 A1 When fees are negotiated with and paid by an assurance client, this creates a self-interest threat and might create an intimidation threat to independence.
- 905.3 A2 The application of the conceptual framework requires that before a firm accepts an assurance engagement for an assurance client, the firm determines whether the threats to independence created by the fees proposed to the client are at an acceptable level. The application of the conceptual framework also requires the firm to re-evaluate such threats when facts and circumstances change during the engagement period.
- 905.3 A3 Factors that are relevant in evaluating the level of threats created when fees are paid by the assurance client include:
- The level of the fees for the assurance engagement and the extent to which they have regard to the resources required, taking into account the firm's commercial and market priorities.
 - The extent of any dependency between the level of the fee for, and the outcome of, the service.
 - The level of the fee in the context of the service to be provided by the firm or a network firm.
 - The significance of the client to the firm or partner.
 - The nature of the client.
 - The nature of the assurance engagement.
 - The involvement of those charged with governance in agreeing fees.
 - Whether the level of the fee is set by an independent third party, such as a regulatory body.

905.3 A4 The conditions, policies and procedures described in paragraphs 120.15 A3 (particularly the existence of a quality management system designed and implemented by a firm in accordance with quality management standards issued by the New Zealand Auditing and Assurance Standards Board) might also impact the evaluation of whether the threats to independence are at an acceptable level.

905.3 A5 The requirements and application material that follow identify circumstances which might need to be further evaluated when determining whether the threats are at an acceptable level. For those circumstances, application material includes examples of additional factors that might be relevant in evaluating the threats.

Level of Fees for Assurance Engagements

905.4 A1 Determining the fees to be charged to an assurance client, whether for assurance or other services, is a business decision of the firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.

905.4 A2 Factors that are relevant in evaluating the level of self-interest and intimidation threats created by the level of the fee for an assurance engagement when paid by the assurance client include:

- The firm's commercial rationale for the fee for the assurance engagement.
- Whether undue pressure has been, or is being, applied by the client to reduce the fee for the assurance engagement.

905.4 A3 Examples of actions that might be safeguards to address such threats include:

- Having an appropriate reviewer who does not take part in the assurance engagement assess the reasonableness of the fee proposed, having regard to the scope and complexity of the engagement.
- Having an appropriate reviewer who did not take part in the assurance engagement review the work performed.

Contingent Fees

905.5 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

R905.6 A firm shall not charge directly or indirectly a contingent fee for an assurance engagement.

R905.7 A firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to an assurance client if the outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgement related to a matter that is material to the subject matter information of the assurance engagement.

905.7 A1 Paragraphs R905.6 and R905.7 preclude a firm from entering into certain contingent fee arrangements with an assurance client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to an assurance client, it might still impact the level of the self-interest threat.

905.7 A2 Factors that are relevant in evaluating the level of such a threat include:

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the contingent fee depends.
- Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the subject matter information.

905.7 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the relevant assurance work.
- Obtaining an advance written agreement with the client on the basis of remuneration.

Total Fees—Overdue Fees

905.8 A1 The level of the self-interest threat might be impacted if fees payable by the assurance client for the assurance engagement or other services are overdue during the period of the assurance engagement.

905.8 A2 It is generally expected that the firm will obtain payment of such fees before the assurance report is issued.

905.8 A3 Factors that are relevant in evaluating the level of such a self-interest threat include:

- The significance of the overdue fees to the firm.
- The length of time the fees have been overdue.
- The firm's assessment of the ability and willingness of the client or other relevant party to pay the overdue fee.

905.8 A4 Examples of actions that might be safeguards to address such a threat include:

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the assurance engagement review the work performed.

R905.9 When a significant part of the fees due from an assurance client remains unpaid for a long time, the firm shall determine:

- (a) Whether the overdue fees might be equivalent to a loan to the client, in which case the requirements and application material set out in Section 911 are applicable; and
- (b) Whether it is appropriate for the firm to be re-appointed or continue the assurance engagement.

Total Fees—Fee Dependency

- 905.10 A1 When the total fees generated from an assurance client by the firm expressing the conclusion in an assurance engagement represent a large proportion of the total fees of that firm, the dependence on, and concern about the potential loss of, fees from that client impact the level of the self-interest threat and create an intimidation threat.
- 905.10 A2 A self-interest and intimidation threat is created in the circumstances described in paragraph 905.10 A1 even if the assurance client is not responsible for negotiating or paying the fees for the assurance engagement.
- 905.10 A3 In calculating the total fees of the firm, the firm might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate.
- 905.10 A4 Factors that are relevant in evaluating the level of such self-interest and intimidation threats include:
- The operating structure of the firm.
 - Where the firm is expected to diversify such that any dependence on the assurance client is reduced.
- 905.10 A5 Examples of actions that might be safeguards to address such threats include:
- Reducing the extent of services other than assurance engagements provided to the client.
 - Increasing the client base of the firm to reduce dependence on the assurance client.
- 905.10 A6 A self-interest or intimidation threat is created when the fees generated by a firm from an assurance client represent a large proportion of the revenue from an individual partner's clients.
- 905.10 A7 Factors that are relevant in evaluating the level of such threats include:
- The qualitative and quantitative significance of the assurance client to the partner.
 - The extent to which the compensation of the partner is dependent upon the fees generated from the client.
- 905.10 A8 Examples of actions that might be safeguards to address such a self-interest or intimidation threat include:
- Having an appropriate reviewer who was not an assurance team member review the work.
 - Ensuring that the compensation of the partner is not significantly influenced by the fees generated from the assurance client.
 - Increasing the client base of the partner to reduce dependence on the client.

OTHER CONSEQUENTIAL AND CONFORMING AMENDMENTS

SECTION 120

THE CONCEPTUAL FRAMEWORK

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Considerations for Audits, Reviews and Other Assurance Engagements

Independence

120.15 A1 Assurance practitioners are required by *International Independence Standards (New Zealand)* to be independent when performing audits, reviews, or other assurance engagements. Independence is linked to the fundamental principles of objectivity and integrity. It comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's or an audit or assurance team member's integrity, objectivity or professional scepticism has been compromised.

120.15 A2 *International Independence Standards (New Zealand)* set out requirements and application material on how to apply the conceptual framework to maintain independence when performing audits, reviews or other assurance engagements. Assurance practitioners and firms are required to comply with these standards in order to be independent when conducting such engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements. The categories of threats to compliance with the fundamental principles described in paragraph 120.6 A3 are also the categories of threats to compliance with independence requirements.

120.15 A3 Conditions, policies and procedures described in paragraphs 120.6 A1 and 120.8 A2 that might assist in identifying and evaluating threats to compliance with the fundamental principles might also be factors relevant to identifying and evaluating threats to independence. In the context of audits, reviews and other assurance engagements, the existence of a quality management system designed and implemented by a firm in accordance with the quality management standards issued by the New Zealand Auditing and Assurance Standards Board is an example of such conditions, policies and procedures.

SECTION 270

PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES

Requirements and Application Material

General

R270.3 An assurance practitioner shall not:

- (a) Allow pressure from others to result in a breach of compliance with the fundamental principles; or
- (b) Place pressure on others that the assurance practitioner knows, or has reason to believe, would result in the other individuals breaching the fundamental principles.

270.3 A1 An assurance practitioner might face pressure that creates threats to compliance with the fundamental principles, for example an intimidation threat, when undertaking a professional activity. Pressure might be explicit or implicit and might come from:

- Within the employing organisation, for example, from a colleague or superior.
- An external individual or organisation such as a vendor, customer or lender.
- Internal or external targets and expectations.

270.3 A2 Examples of pressure that might result in threats to compliance with the fundamental principles include:

- Pressure related to conflicts of interest:
 - Pressure from a family member bidding to act as a vendor to the assurance practitioner's employing organisation to select the family member over another prospective vendor.

See also Section 210, *Conflicts of Interest*.

- ...
- Pressure related to level of fees
 - Pressure exerted by an assurance practitioner on another assurance practitioner to provide assurance services at a fee level that does not allow for sufficient and appropriate resources (including human, technological and intellectual resources) to perform the services in accordance with standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.

See also Section 330, Fees and Other Types of Remuneration

270.3 A3 Factors that are relevant in evaluating the level of threats created by pressure include:

- The intent of the individual who is exerting the pressure and the nature and extent of the pressure.
-

SECTION 320

PROFESSIONAL APPOINTMENT

...

Requirements and Application Material

Client and Engagement Acceptance

General

320.3 A1 Threats to compliance with the principles of integrity or professional behaviour might be created, for example, from questionable issues associated with the client (its owners, management or activities). Issues that, if known, might create such a threat include client involvement in illegal activities, dishonesty, questionable financial reporting practices or other unethical behaviour.

320.3 A2 ...

320.3 A3 A self-interest threat to compliance with the principle of professional competence and due care is created if the engagement team does not possess, or cannot acquire, the competencies to perform the professional services.

320.3 A4 Factors that are relevant in evaluating the level of such a threat include:

- An appropriate understanding of:
 - The nature of the client's business;
 - The complexity of its operations;
 - The requirements of the engagement; and
 - The purpose, nature and scope of the work to be performed.
- Knowledge of relevant industries or subject matter.
- Experience with relevant regulatory or reporting requirements.
- The existence of quality control policies and procedures designed to provide reasonable assurance that engagements are accepted only when they can be performed competently.
- The level of fees and the extent to which they have regard to the resources required, taking into account the assurance practitioner's commercial and market priorities.

320.3 A5 Examples of actions that might be safeguards...

SECTION 330

FEES AND OTHER TYPES OF REMUNERATION

...

Application Material

Level of Fees

330.3 A1 The level of fees might impact an assurance practitioner's ability to perform professional services in accordance with professional standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.

330.3 A2 An assurance practitioner might quote whatever fee is considered appropriate. Quoting a fee lower than another assurance practitioner is not in itself unethical. However, the level of fees quoted creates a self-interest threat to compliance with the principle of professional competence and due care if the fee quoted is so low that it might be difficult to perform the engagement in accordance with standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.

330.3 A3 Factors that are relevant in evaluating the level of such a threat include:

- Whether the client is aware of the terms of the engagement and, in particular, the basis on which fees are determined and which professional services are covered.
- Whether the level of the fee is set by an independent third party such as a regulatory body.

330.3 A4 Examples of actions that might be safeguards to address such a self-interest threat include:

- Adjusting the level of fees or the scope of the engagement.
- Having an appropriate reviewer review the work performed.

...

EFFECTIVE DATE

- For the revised Section 410 and consequential amendments to Part 4A: effective for audits of financial statements for periods beginning on or after 15 December, 2022.
- For the revised Section 905: in relation to assurance engagements with respect to underlying subject matters covering periods of time, effective for periods beginning on or after December 15, 2022; otherwise, effective from 15 December, 2022.
- For conforming and consequential amendments to other Sections of the Code: effective from 15 December, 2022.

Early adoption will be permitted.

Date: 9 February 2022

To: Michele Embling, Chair External Reporting Board

From: Robert Buchanan, Chairman NZAuASB

Subject: Certificate Signing Memorandum:
Amendments to Professional and Ethical Standard 1: Revisions to the Fee-Related Provisions of the Code

Introduction

1. In accordance with the protocols established by the XRB Board, the NZAuASB seeks your approval to issue *Amendments to Professional and Ethical Standard 1: Revisions to the Fee-Related Provisions of the Code*.

Background

International process

2. The International Ethics Standards Board for Accountants (IESBA) issued its Exposure Draft *Fee-Related Matters* in January 2020 concurrent with its exposure draft of revisions to the non-assurance services provisions of the Code. Together the proposed revisions are aimed at strengthening the international independence standards.
3. The IESBA proposed fee revisions to the Code included modifications to:
 - Articulate and address the issue of threats to independence created when fees are negotiated and paid by the audit or assurance client.
 - Clarify that the audit fee should be a standalone fee within the spectrum of total fees from the audit client so that the provision of services other than audit does not influence the level of audit fee.
 - Provide guidance for firms to evaluate and address the threats to independence created when a large proportion of total fees charged by the firm or network firms to an audit client is for services other than audit.
 - Enhance the provisions regarding fee dependency both when audit clients are public interest entities (PIEs) and when they are non-PIEs, including establishing a threshold for addressing threats in the case of non-PIE audit clients.
 - Require the firm to cease to be the auditor for a PIE audit client if circumstances of fee dependency continue beyond a certain period.
 - Enhance transparency with regard to fee-related information for PIE audit clients to assist those charged with governance and the public in forming their views about the firm's independence.

- Enhance the robustness of guidance in the Code regarding factors to evaluate the level of threats created when fees are paid by an audit or assurance client and safeguards to address such threats.
4. The IESBA received 64 submissions in response to the fees exposure draft. Respondents, including the NZAuASB, were broadly supportive of the need to strengthen fee-related provisions in the Code and the proposed revisions.
 5. The revisions were approved without substantive change with 14 affirmative votes out of the 15 IESBA members present. One IESBA member voted against the final text. This IESBA member did not support the requirements relating to fee dependency, which he felt included “bright line” rules that could be circumvented and therefore would weaken the Code. In his view, the public interest would have been better served by taking a more principles-based approach to addressing the issue of fee dependency. The final standard was released in April 2021.

Domestic process

6. The NZAuASB consulted its constituency in relation to the IESBA ED by seeking input from a wide range of targeted New Zealand constituents. At the time of exposure, no compelling reason changes to the fees proposals were identified.
7. The NZAuASB did not receive any submissions in relation to the exposure draft.
8. At its [February 2021 meeting](#)¹, staff presented the NZAuASB with an overview of the key issues raised in the consultation and how they were addressed by the IESBA in finalising the fees provisions and highlighted if, and how, matters arising from the NZAuASB submission were addressed.
9. The NZAuASB has not identified any compelling reason amendments to be made to the international standard.
10. At the joint Boards meeting held in February 2021, the Boards received an update on the ongoing projects in Australia and New Zealand to improve disclosure of audit fees. The Boards agreed that the NZASB should continue working closely with the AASB. It is the view of the NZAuASB that the Code should not impose disclosure requirements on the auditor. Rather the disclosure requirements should be addressed in the accounting standards. This view was very clear in the NZAuASB submission to the IESBA. For this reason, the NZAuASB agreed to add a footnote cross reference to the disclosure requirements in the accounting standards.

Australian process and harmonisation with Australia

11. The Accounting Professional & Ethical Standards Board (APESB) released its *Fee-Related Matters* exposure draft in May 2021 to incorporate changes made by the

¹ February 2021 NZAuASB meeting, agenda item 3

IESBA and to address key recommendations from the PJC inquiry.² The consultation period ended on 31 August 2021.

12. Of note in the APESB's exposure draft is the addition of Australian specific application material describing the different categories of services that may be provided by the auditor (recommendation 3 of the PJC inquiry).
13. The consultation period ended on 31 August 2021 with the APESB receiving 19 submissions from a broad range of respondents. In relation to the inclusion of the fee categories, respondents were generally supportive of the proposed categories of services but were concerned that the proposed revisions to include fee categories in the Code would place the requirement to disclose fees on the auditor rather than on those charged with governance of the entity. Several respondents also suggested that the APESB should work with the Australian Accounting Standards Board (AASB) to ensure the fee disclosures are set out in the accounting standards.
14. The next meeting of the APESB will be held in March 2022 where the APESB is expected to further consider the submissions received in response to its consultation.
15. It is the preference of the NZAuASB that disclosure requirements be addressed through the accounting standards, not the Code. Therefore, at this time, the NZAuASB is not proposing to include similar fee categories in the Code. The NZAuASB is monitoring closely the NZASB's project on disclosure of auditor remuneration.

Privacy

16. The Financial Reporting Act 2013, section 22(2) requires that the External Reporting Board consult with the Privacy Commissioner where an accounting or assurance standard is likely to require the disclosure of personal information. No such consultation is required in relation to this standard.

Due process

17. The due process followed by the NZAuASB complied with the due process requirements established by the XRB Board and in the NZAuASB's view meets the requirements of section 12(b) of the Financial Reporting Act 2013.

Consistency with XRB Financial Reporting Strategy

18. The adoption of Amendments to Professional and Ethical Standard 1: *Revisions to the Fee-Related Provisions of the Code* is consistent with one of the key strategic objectives set by the XRB Board for the NZAuASB to adopt international auditing and assurance standards, as applying in New Zealand unless there are compelling reasons not to.

² Inquiry into the regulation of the auditing profession in Australia undertaken by the Parliamentary Joint Committee on Corporations and Financial Services (PJC Inquiry)

Other matters

19. There are no other matters relating to the issue of this standard that the NZAuASB considers to be pertinent or that should be drawn to your attention.

Recommendation

20. The NZAuASB recommends that you sign the attached certificate of determination on behalf of the XRB Board.

Attachments

- Amendments to Professional and Ethical Standard 1: *Revisions to the Fee-Related Provisions of the Code*
- Certificate of determination
- Approval certificate

Robert Buchanan

Chair NZAuASB



AMENDMENTS TO PROFESSIONAL AND ETHICAL STANDARD 1: *Revisions to the Fee-Related Provisions of the Code*

This Standard was issued on xx month 2022 by the New Zealand Auditing and Assurance Standards Board of the External Reporting Board pursuant to section 12(b) of the Financial Reporting Act 2013.

This Standard is a disallowable instrument for the purposes of the Legislation Act 2019, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on xx month 2022.

The amendments in this Standard are effective from 15 December 2022. Early adoption will be permitted.

In finalising this Standard, the New Zealand Auditing and Assurance Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

This Standard has been issued to amend the fee-related provisions of Professional and Ethical Standard 1.

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REVISIONS TO THE FEE-RELATED PROVISIONS OF THE CODE

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PART 4A – INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

SECTION 400

APPLYING THE CONCEPTUAL FRAMEWORK TO INDEPENDENCE FOR AUDIT AND REVIEW ENGAGEMENTS

Introduction

General

400.1 It is in the public interest and required by the Code that assurance practitioners be independent when performing audit or review engagements.

400.2 *[Amended by the NZAuASB]*

NZ 400.2 This Part applies to both audit and review engagements unless otherwise stated.

NZ 400.2.1 This Part also applies to engagements where assurance is provided to an offer document of a FMC reporting entity considered to have a higher level of public accountability in respect of historical financial information, prospective or pro-forma financial information, or a combination of these.

[Paragraphs 400.3 to R400.89 of extant Section 400 remain unchanged.]

SECTION 410

FEES

Introduction

410.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

410.2 Section 330 sets out application material relevant to applying the conceptual framework where the level and nature of fee and other remuneration arrangements might create a self-interest threat to compliance with one or more of the fundamental principles. This section sets out specific requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence arising from fees charged to audit clients.

Requirements and Application Material

General

410.3 A1 Fees for professional assurance services are usually negotiated with and paid by an audit client and might create threats to independence. This practice is generally recognised and accepted by intended users of financial statements.

410.3 A2 When the audit client is a public interest entity, stakeholders have heightened expectations regarding the firm's independence. As transparency can serve to better inform the views and decisions of those charged with governance and a wide range of stakeholders, this section

Commented [SW1]: Refer Board meeting summary paper "matters to consider"

Commented [SW2]: Section 410 replaces extant section 410. New section 410 is shown with underline, extant section 410 is shown with strikethrough.

Commented [SW3]: NZ contextual change. Relates to limited mandate.

provides for disclosure of fee-related information to both those charged with governance and stakeholders more generally for audit clients that are public interest entities.

410.3 A3 For the purposes of this section, audit fees comprise fees or other types of remuneration for an audit or review of financial statements. Where reference is made to the fee for the audit of the financial statements, this does not include any fee for an audit of special purpose financial statements or a review of financial statements. (Ref: Para. R410.23(a), 410.25 A1 and R410.31(a))

Fees Paid by an Audit Client

410.4 A1 When fees are negotiated with and paid by an audit client, this creates a self-interest threat and might create an intimidation threat to independence.

410.4 A2 The application of the conceptual framework requires that before a firm or network firm accepts an audit or any other engagement for an audit client, the firm determines whether the threats to independence created by the fees proposed to the client are at an acceptable level. The application of the conceptual framework also requires the firm to re-evaluate such threats when facts and circumstances change during the engagement period for the audit.

410.4 A3 Factors that are relevant in evaluating the level of threats created when fees for an audit or any other engagement are paid by the audit client include:

- The level of the fees and the extent to which they have regard to the resources required, taking into account the firm's commercial and market priorities.
- Any linkage between fees for the audit and those for services other than audit and the relative size of both elements.
- The extent of any dependency between the level of the fee for, and the outcome of, the service.
- Whether the fee is for services to be provided by the firm or a network firm.
- The level of the fee in the context of the service to be provided by the firm or a network firm.
- The operating structure and the compensation arrangements of the firm and network firms.
- The significance of the client, or a third party referring the client, to the firm, network firm, partner or office.
- The nature of the client, for example whether the client is a public interest entity.
- The relationship of the client to the related entities to which the services other than audit are provided, for example when the related entity is a sister entity.
- The involvement of those charged with governance in appointing the auditor and agreeing fees, and the apparent emphasis they and client management place on the quality of the audit and the overall level of the fees.
- Whether the level of the fee is set by an independent third party, such as a regulatory body.
- Whether the quality of the firm's audit work is subject to the review of an independent third party, such as an oversight body.

410.4 A4 The conditions, policies and procedures described in paragraph 120.15 A3 (particularly the existence of a quality management system designed and implemented by the firm in accordance with quality management standards issued by the [New Zealand Auditing and Assurance Standards Board \(AASB\)](#)) might also impact the evaluation of whether the threats to independence are at an acceptable level.

410.4 A5 The requirements and application material that follow identify circumstances which might need to be further evaluated when determining whether the threats are at an acceptable level. For those circumstances, application material includes examples of additional factors that might be relevant in evaluating the threats.

Level of Audit or Review Fees

410.5 A1 Determining the fees to be charged to an audit or review client, whether for audit, review or other services, is a business decision of the firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of [technical and professional standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board](#).

410.5 A2 Factors that are relevant in evaluating the level of self-interest and intimidation threats created by the level of the audit fee paid by the audit client include:

- The firm's commercial rationale for the audit fee.
- Whether undue pressure has been, or is being, applied by the client to reduce the audit fee.

410.5 A3 Examples of actions that might be safeguards to address such threats include:

- Having an appropriate reviewer who does not take part in the audit engagement assess the reasonableness of the fee proposed, having regard to the scope and complexity of the engagement.
- Having an appropriate reviewer who did not take part in the audit engagement review the work performed.

Impact of Other Services Provided to an Audit Client

R410.6 Subject to paragraph R410.7, a firm shall not allow the audit fee to be influenced by the provision of services other than audit to an audit client by the firm or a network firm.

410.6 A1 The audit fee ordinarily reflects a combination of matters, such as those identified in paragraph 410.23 A1. However, the provision of other services to an audit client is not an appropriate consideration in determining the audit fee.

R410.7 As an exception to paragraph R410.6, when determining the audit fee, the firm may take into consideration the cost savings achieved as a result of experience derived from the provision of services other than audit to an audit client.

Contingent Fees

410.8 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an

Commented [SW4]: NZ contextual change to replace technical and professional standards with standards issued by the XRB, NZAuASB and NZASB

intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

R410.9 A firm shall not charge directly or indirectly a contingent fee for an audit engagement.

R410.10 A firm or network firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to an audit client, if:

(a) The fee is charged by the firm expressing the opinion on the financial statements and the fee is material or expected to be material to that firm;

(b) The fee is charged by a network firm that participates in a significant part of the audit and the fee is material or expected to be material to that firm; or

(c) The outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgment related to the audit of a material amount in the financial statements.

410.10 A1 Paragraphs R410.9 and R410.10 preclude a firm or a network firm from entering into certain contingent fee arrangements with an audit client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to an audit client, it might still impact the level of the self-interest threat.

410.10 A2 Factors that are relevant in evaluating the level of such a threat include:

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the contingent fee depends.
- Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the financial statements.

410.10 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed.
- Obtaining an advance written agreement with the client on the basis of remuneration.

Total Fees – Proportion of Fees for Services Other than Audit to Audit Fee

410.11 A1 The level of the self-interest threat might be impacted when a large proportion of fees charged by the firm or network firms to an audit client is generated by providing services other than audit to the client, due to concerns about the potential loss of either the audit engagement or other services. Such circumstances might also create an intimidation threat. A further consideration is a perception that the firm or network firm focuses on the non-audit relationship, which might create a threat to the auditor's independence.

410.11 A2 Factors that are relevant in evaluating the level of such threats include:

- The ratio of fees for services other than audit to the audit fee.

- The length of time during which a large proportion of fees for services other than audit to the audit fee has existed.
- The nature, scope and purposes of the services other than audit, including:
 - Whether they are recurring services.
 - Whether law or regulation mandates the services to be performed by the firm.

410.11 A3 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Having an appropriate reviewer who was not involved in the audit or the service other than audit review the relevant audit work.
- Reducing the extent of services other than audit provided to the audit client.

Total Fees – Overdue Fees

410.12 A1 The level of the self-interest threat might be impacted if fees payable by an audit client for the audit or services other than audit are overdue during the period of the audit engagement.

410.12 A2 It is generally expected that the firm will obtain payment of such fees before the audit report is issued.

410.12 A3 Factors that are relevant in evaluating the level of such a self-interest threat include:

- The significance of the overdue fees to the firm.
- The length of time the fees have been overdue.
- The firm's assessment of the ability and willingness of the audit client to pay the overdue fees.

410.12 A4 Examples of actions that might be safeguards to address such a threat include:

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the audit engagement review the audit work.

R410.13 When a significant part of the fees due from an audit client remains unpaid for a long time, the firm shall determine:

- Whether the overdue fees might be equivalent to a loan to the client, in which case the requirements and application material set out in section 511 are applicable; and
- Whether it is appropriate for the firm to be re-appointed or continue the audit engagement.

Total Fees – Fee Dependency

All Audit Clients

410.14 A1 When the total fees generated from an audit client by the firm expressing the audit opinion represent a large proportion of the total fees of that firm, the dependence on, and concern about the potential loss of, fees from audit and other services from that client impact the level of the self-interest threat and create an intimidation threat.

410.14 A2 In calculating the total fees of the firm, the firm might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate.

410.14 A3 Factors that are relevant in evaluating the level of such self-interest and intimidation threats include:

- The operating structure of the firm.
- Whether the firm is expected to diversify such that any dependence on the audit client is reduced.

410.14 A4 Examples of actions that might be safeguards to address such threats include:

- Having an appropriate reviewer who is not a member of the firm review the audit work.
- Reducing the extent of services other than audit provided to the audit client.
- Increasing the client base of the firm to reduce dependence on the client.
- Increasing the extent of services provided to other clients.

410.14 A5 A self-interest or intimidation threat is created when the fees generated by a firm from an audit client represent a large proportion of the revenue of one partner or one office of the firm.

410.14 A6 Factors that are relevant in evaluating the level of such threats include:

- The qualitative and quantitative significance of the audit client to the partner or office.
- The extent to which the compensation of the partner, or the partners in the office, is dependent upon the fees generated from the client.

410.14 A7 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Having an appropriate reviewer who was not involved in the audit engagement review the audit work.
- Ensuring that the compensation of the partner is not significantly influenced by the fees generated from the client.
- Reducing the extent of services other than audit provided by the partner or office to the audit client.
- Increasing the client base of the partner or the office to reduce dependence on the client.
- Increasing the extent of services provided by the partner or the office to other clients.

Audit Clients that are Not Public Interest Entities

R410.15 When for each of five consecutive years total fees from an audit client that is not a public interest entity represent, or are likely to represent, more than 30% of the total fees received by the firm, the firm shall determine whether either of the following actions might be a safeguard to reduce the threats created to an acceptable level, and if so, apply it:

- (a) Prior to the audit opinion being issued on the fifth year's financial statements, have an ~~assurance practitioner~~ ~~professional accountant~~, who is not a member of the firm expressing the opinion on the financial statements, review the fifth year's audit work; or

(b) After the audit opinion on the fifth year's financial statements has been issued, and before the audit opinion is issued on the sixth year's financial statements, have an ~~professional accountant~~ assurance practitioner, who is not a member of the firm expressing the opinion on the financial statements, or a professional body review the fifth year's audit work.

R410.16 If the total fees described in paragraph R410.15 continue to exceed 30%, the firm shall each year determine whether either of the actions in paragraph R410.15 applied to the relevant year's engagement might be a safeguard to address the threats created by the total fees received by the firm from the client, and if so, apply it.

R410.17 When two or more firms are engaged to conduct an audit of the client's financial statements, the involvement of the other firm in the audit may be regarded each year as an action equivalent to that in paragraph R410.15 (a), if:

(a) The circumstances addressed by paragraph R410.15 apply to only one of the firms expressing the audit opinion; and

(b) Each firm performs sufficient work to take full individual responsibility for the audit opinion.

Audit Clients that are Public Interest Entities

R410.18 When for each of two consecutive years the total fees from an audit client that is a public interest entity represent, or are likely to represent, more than 15% of the total fees received by the firm, the firm shall determine whether, prior to the audit opinion being issued on the second year's financial statements, a review, consistent with the objective of an engagement quality review, performed by an ~~assurance practitioner~~ professional accountant who is not a member of the firm expressing the opinion on the financial statements ("pre-issuance review") might be a safeguard to reduce the threats to an acceptable level, and if so, apply it.

R410.19 When two or more firms are engaged to conduct an audit of the client's financial statements, the involvement of the other firm in the audit may be regarded each year as an action equivalent to that in paragraph R410.18, if:

(a) The circumstances addressed by paragraph R410.18 apply to only one of the firms expressing the audit opinion; and

(b) Each firm performs sufficient work to take full individual responsibility for the audit opinion.

R410.20 Subject to paragraph R410.21, if the circumstances described in paragraph R410.18 continue for five consecutive years, the firm shall cease to be the auditor after the audit opinion for the fifth year is issued.

R410.21 As an exception to paragraph R410.20, the firm may continue to be the auditor after five consecutive years if there is a compelling reason to do so having regard to the public interest, provided that:

(a) The firm consults with a regulatory or professional body in the relevant jurisdiction and it concurs that having the firm continue as the auditor would be in the public interest; and

(b) Before the audit opinion on the sixth and any subsequent year's financial statements is issued, the firm engages an assurance practitioner-professional accountant, who is not a member of the firm expressing the opinion on the financial statements, to perform a pre-issuance review.

410.21 A1 A factor which might give rise to a compelling reason is the lack of viable alternative firms to carry out the audit engagement, having regard to the nature and location of the client's business.

Transparency of Information Regarding Fees for Audit Clients that are Public Interest Entities

Communication About Fee-related Information with Those Charged with Governance

410.22 A1 Communication by the firm of fee-related information (for both audit and services other than audit) with those charged with governance assists in their assessment of the firm's independence. Effective communication in this regard also allows for a two-way open exchange of views and information about, for example, the expectations that those charged with governance might have regarding the scope and extent of audit work and impact on the audit fee.

Fees for the Audit of the Financial Statements

R410.23 Subject to paragraph R410.24, the firm shall communicate in a timely manner with those charged with governance of an audit client that is a public interest entity:

- (a) Fees paid or payable to the firm or network firms for the audit of the financial statements on which the firm expresses an opinion; and
- (b) Whether the threats created by the level of those fees are at an acceptable level, and if not, any actions the firm has taken or proposes to take to reduce such threats to an acceptable level.

410.23 A1 The objective of such communication is to provide the background and context to the fees for the audit of the financial statements on which the firm expresses an opinion to enable those charged with governance to consider the independence of the firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- Considerations affecting the level of the fees such as:
 - The scale, complexity and geographic spread of the audit client's operations.
 - The time spent or expected to be spent commensurate with the scope and complexity of the audit.
 - The cost of other resources utilized or expended in performing the audit.
 - The quality of record keeping and processes for financial statements preparation.
- Adjustments to the fees quoted or charged during the period of the audit, and the reasons for any such adjustments.
- Changes to laws and regulations and professional standards relevant to the audit that impacted the fees.

410.23 A2 The firm is encouraged to provide such information as soon as practicable and communicate proposed adjustments as appropriate.

R410.24 As an exception to paragraph R410.23, the firm may determine not to communicate the information set out in paragraph R410.23 to those charged with governance of an entity that is (directly or indirectly) wholly-owned by another public interest entity provided that:

- (a) The entity is consolidated into group financial statements prepared by that other public interest entity; and
- (b) The firm or a network firm expresses an opinion on those group financial statements.

Fees for Other Services

R410.25 Subject to paragraph R410.27, the firm shall communicate in a timely manner with those charged with governance of an audit client that is a public interest entity:

- (a) The fees, other than those disclosed under paragraph R410.23 (a), charged to the client for the provision of services by the firm or a network firm during the period covered by the financial statements on which the firm expresses an opinion. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the financial statements on which the firm will express an opinion; and
- (b) As set out in paragraph 410.11 A1, where the firm has identified that there is an impact on the level of the self-interest threat or that there is an intimidation threat to independence created by the proportion of fees for services other than audit relative to the audit fee:
 - (i) Whether such threats are at an acceptable level; and
 - (ii) If not, any actions that the firm has taken or proposes to take to reduce such threats to an acceptable level.

410.25 A1 The objective of such communication is to provide the background and context to the fees for other services to enable those charged with governance to consider the independence of the firm. The nature and extent of matters to be communicated will depend on the facts and circumstances and might include for example:

- The amount of fees for other services that are required by law or regulation.
- The nature of other services provided and their associated fees.
- Information on the nature of the services provided under a general policy approved by those charged with governance and associated fees.
- The proportion of fees referred to in paragraph R410.25(a) to the aggregate of the fees charged by the firm and network firms for the audit of the financial statements on which the firm expresses an opinion.

R410.26 The firm shall include in the communication required by paragraph R410.25(a) the fees, other than those disclosed under paragraph R410.23(a), charged to any other related entities over which the audit client has direct or indirect control for the provision of services by the firm or a

network firm, when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm's independence.

410.26 A1 Factors the firm might consider when determining whether the fees, other than those disclosed under paragraph R410.23(a), charged to such other related entities, individually and in the aggregate, for the provision of services by the firm or a network firm are relevant to the evaluation of the firm's independence include:

- The extent of the audit client's involvement in the appointment of the firm or network firm for the provision of such services, including the negotiation of fees.
- The significance of the fees paid by the other related entities to the firm or a network firm.
- The proportion of fees from the other related entities to the fees paid by the client.

R410.27 As an exception to paragraph R410.25, the firm may determine not to communicate the information set out in paragraph R410.25 to those charged with governance of an entity that is (directly or indirectly) wholly-owned by another public interest entity provided that:

- (a) The entity is consolidated into group financial statements prepared by that other public interest entity; and
- (b) The firm or a network firm expresses an opinion on those group financial statements.

Fee Dependency

R410.28 Where the total fees from an audit client that is a public interest entity represent, or are likely to represent, more than 15% of the total fees received by the firm, the firm shall communicate with those charged with governance:

- (a) That fact and whether this situation is likely to continue;
- (b) The safeguards applied to address the threats created, including, where relevant, the use of a pre-issuance review (Ref: Para R410.18); and
- (c) Any proposal to continue as the auditor under paragraph R410.21.

Public Disclosure of Fee-related Information

410.29 A1 In view of the public interest in the audits of public interest entities, it is beneficial for stakeholders to have visibility about the professional relationships between the firm and the audit client which might reasonably be thought to be relevant to the evaluation of the firm's independence. In a wide number of jurisdictions, there already exist requirements regarding the disclosure of fees by an audit client for both audit and services other than audit paid and payable to the firm and network firms. Such disclosures often require the disaggregation of fees for services other than audit into different categories.

R410.30 If laws and regulations do not require an audit client to disclose audit fees, fees for services other than audit paid or payable to the firm and network firms and information about fee

dependency, the firm shall discuss with those charged with governance of an audit client that is a public interest entity¹:

- (a) The benefit to the client's stakeholders of the client making such disclosures that are not required by laws and regulations in a manner deemed appropriate, taking into account the timing and accessibility of the information; and
- (b) The information that might enhance the users' understanding of the fees paid or payable and their impact on the firm's independence.

Commented [SW5]: NZ footnote re disclosure requirements added as previously agreed by the Board.

410.30 A1 Examples of information relating to fees that might enhance the users' understanding of the fees paid or payable and their impact on the firm's independence include:

- Comparative information of the prior year's fees for audit and services other than audit.
- The nature of services and their associated fees as disclosed under paragraph R410.31(b).
- Safeguards applied when the total fees from the client represent or are likely to represent more than 15% of the total fees received by the firm.

R410.31 After the discussion with those charged with governance as set out in paragraph R410.30, to the extent that the audit client that is a public interest entity does not make the relevant disclosure, subject to paragraph R410.32, the firm shall publicly disclose:

- (a) Fees paid or payable to the firm and network firms for the audit of the financial statements on which the firm expresses an opinion;
- (b) Fees, other than those disclosed under (a), charged to the client for the provision of services by the firm or a network firm during the period covered by the financial statements on which the firm expresses an opinion. For this purpose, such fees shall only include fees charged to the client and its related entities over which the client has direct or indirect control that are consolidated in the financial statements on which the firm will express an opinion;
- (c) Any fees, other than those disclosed under (a) and (b), charged to any other related entities over which the audit client has direct or indirect control for the provision of services by the firm or a network firm when the firm knows, or has reason to believe, that such fees are relevant to the evaluation of the firm's independence; and
- (d) If applicable, the fact that the total fees received by the firm from the audit client represent, or are likely to represent, more than 15% of the total fees received by the firm for two consecutive years, and the year that this situation first arose.

410.31 A1 The firm might also disclose other information relating to fees that will enhance the users' understanding of the fees paid or payable and the firm's independence, such as the examples described in paragraph 410.30 A1.

410.31 A2 Factors the firm might consider when making the determination required by paragraph R410.31(c) are set out in paragraph 410.26 A1.

¹ [FRS 44 New Zealand Additional Disclosures and PBE IPSAS 1 Presentation of Financial Statements issued by the New Zealand Accounting Standards Board establish the disclosure requirements in New Zealand.](#)

410.31 A3 When disclosing fee-related information in compliance with paragraph R410.31, the firm might disclose the information in a manner deemed appropriate taking into account the timing and accessibility of the information to stakeholders, for example:

- On the firm's website.
- In the firm's transparency report.
- In an audit quality report.
- Through targeted communication to specific stakeholders, for example a letter to the shareholders.
- In the auditor's report.

R410.32 As an exception to paragraph R410.31, the firm may determine not to publicly disclose the information set out in paragraph R410.31 relating to:

- (a) A parent entity that also prepares group financial statements provided that the firm or a network firm expresses an opinion on the group financial statements; or
- (b) An entity (directly or indirectly) wholly-owned by another public interest entity provided that:
 - (i) The entity is consolidated into group financial statements prepared by that other public interest entity; and
 - (ii) The firm or a network firm expresses an opinion on those group financial statements.

Considerations for Review Clients

R410.33 This section sets out requirements for a firm to communicate fee-related information of an audit client that is a public interest entity and to disclose publicly fee-related information to the extent that the client does not disclose such information. As an exception to those requirements, the firm may determine not to communicate or pursue disclosure of such information where a review client is not also an audit client.

Commented [SW6]: Refer Board meeting summary paper "matters to consider"

Introduction

410.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

410.2 The nature and level of fees or other types of remuneration might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.

Commented [SW7]: Extant section 410

Requirements and Application Material

Fees – Relative Size

All Audit and Review Clients

NZ R410.3 As required by R120.10, where the threat cannot be eliminated or safeguards, where available and capable of being applied, cannot reduce the threat to an acceptable level, the firm shall end or decline the engagement.

410.3 A1 When the total fees generated from an audit or review client by the firm expressing the audit opinion or review conclusion represent a large proportion of the total fees of that firm, the dependence on that client and concern about losing the client create a self-interest or intimidation threat.

410.3 A2 Factors that are relevant in evaluating the level of such threats include:

- The operating structure of the firm.
- Whether the firm is well established or new.
- The significance of the client qualitatively and/or quantitatively to the firm.

410.3 A3 An example of an action that might be a safeguard to address such a self-interest or intimidation threat is increasing the client base in the firm to reduce dependence on the audit client.

410.3 A4 A self-interest or intimidation threat is also created when the fees generated by a firm from an audit or review client represent a large proportion of the revenue of one partner or one office of the firm.

410.3 A5 Factors that are relevant in evaluating the level of such threats include:

- The significance of the client qualitatively and/or quantitatively to the partner or office.
- The extent to which the compensation of the partner, or the partners in the office, is dependent upon the fees generated from the client.

410.3 A6 Examples of actions that might be safeguards to address such self-interest or intimidation threats include:

- Increasing the client base of the partner or the office to reduce dependence on the audit or review client.
- Having an appropriate reviewer who did not take part in the audit or review engagement review the work.

Audit or Review Clients that are Public Interest Entities

R410.4 Where an audit or review client is a public interest entity and, for two consecutive years, the total fees from the client and its related entities represent more than 15% of the total fees received by the firm expressing the opinion or conclusion on the financial statements of the client, the firm shall:

- (a) Disclose to those charged with governance of the audit or review client the fact that the total of such fees represents more than 15% of the total fees received by the firm; and
- (b) Discuss whether either of the following actions might be a safeguard to address the threat created by the total fees received by the firm from the client, and if so, apply it:

- (i) Prior to the audit opinion or review conclusion being issued on the second year's financial statements, an assurance practitioner, who is not a member of the firm expressing the opinion or conclusion on the financial statements, performs an engagement quality control review of that engagement; or a professional body performs a review of that engagement that is equivalent to an engagement quality control review ("a pre-issuance review"); or
- (ii) After the audit opinion or review conclusion on the second year's financial statements has been issued, and before the audit opinion or review conclusion being issued on the third year's financial statements, an assurance practitioner, who is not a member of the firm expressing the opinion or conclusion on the financial statements, or a professional body performs a review of the second year's audit or review that is equivalent to an engagement quality control review ("a post-issuance review").

R410.5 — When the total fees described in paragraph R410.4 significantly exceed 15%, the firm shall determine whether the level of the threat is such that a post-issuance review would not reduce the threat to an acceptable level. If so, the firm shall have a pre-issuance review performed.

R410.6 — If the fees described in paragraph R410.4 continue to exceed 15%, the firm shall each year:

- (a) Disclose to and discuss with those charged with governance the matters set out in paragraph R410.4; and
- (b) Comply with paragraphs R410.4(b) and R410.5.

Fees — Overdue

410.7 A1 — A self-interest threat might be created if a significant part of fees is not paid before the audit or review report for the following year is issued. It is generally expected that the firm will require payment of such fees before such audit or review report is issued. The requirements and application material set out in Section 511 with respect to loans and guarantees might also apply to situations where such unpaid fees exist.

410.7 A2 — Examples of actions that might be safeguards to address such a self-interest threat include:

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the audit or review engagement review the work performed.

R410.8 — When a significant part of fees due from an audit or review client remains unpaid for a long time, the firm shall determine:

- (a) Whether the overdue fees might be equivalent to a loan to the client; and
- (b) Whether it is appropriate for the firm to be re-appointed or continue the audit or review engagement.

Contingent Fees

410.9 A1 — Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an

intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

~~R410.10~~ A firm shall not charge directly or indirectly a contingent fee for an audit or review engagement.

~~R410.11~~ A firm or network firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to an audit or review client, if:

- ~~(a)~~ The fee is charged by the firm expressing the opinion or conclusion on the financial statements and the fee is material or expected to be material to that firm;
- ~~(b)~~ The fee is charged by a network firm that participates in a significant part of the audit or review and the fee is material or expected to be material to that firm; or
- ~~(c)~~ The outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgement related to the audit of a material amount in the financial statements.

~~410.12 A1~~ Paragraphs ~~R410.10~~ and ~~R410.11~~ preclude a firm or a network firm from entering into certain contingent fee arrangements with an audit or review client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to an audit or review client, a self-interest threat might still be created.

~~410.12 A2~~ Factors that are relevant in evaluating the level of such a threat include:

- ~~•~~ The range of possible fee amounts.
- ~~•~~ Whether an appropriate authority determines the outcome on which the contingent fee depends.
- ~~•~~ Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- ~~•~~ The nature of the service.
- ~~•~~ The effect of the event or transaction on the financial statements.

~~410.12 A3~~ Examples of actions that might be safeguards to address such a self-interest threat include:

- ~~•~~ Having an appropriate reviewer who was not involved in performing the non-assurance service review the work performed by the firm.
- ~~•~~ Obtaining an advance written agreement with the client on the basis of remuneration.

PART 4B – INDEPENDENCE FOR ASSURANCE ENGAGEMENTS OTHER THAN AUDIT AND REVIEW ENGAGEMENTS

SECTION 905

FEES

Introduction

905.1 ~~Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.~~

Commented [SW8]: Extant section 905

905.2 ~~The nature and level of fees or other types of remuneration might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework in such circumstances.~~

Requirements and Application Material

Fees—Relative Size

~~NZ R905.3.1 As required by R120.10, where the threat cannot be eliminated or safeguards, where available and capable of being applied, cannot reduce the threat to an acceptable level, the firm shall end or decline the engagement.~~

905.3 A1 ~~When the total fees generated from an assurance client by the firm expressing the conclusion in an assurance engagement represent a large proportion of the total fees of that firm, the dependence on that client and concern about losing the client create a self-interest or intimidation threat.~~

905.3 A2 ~~Factors that are relevant in evaluating the level of such threats include:~~

- ~~• The operating structure of the firm.~~
- ~~• Whether the firm is well established or new.~~
- ~~• The significance of the client qualitatively and/or quantitatively to the firm.~~

905.3 A3 ~~An example of an action that might be a safeguard to address such a self-interest or intimidation threat is increasing the client base in the firm to reduce dependence on the assurance client.~~

905.3 A4 ~~A self-interest or intimidation threat is also created when the fees generated by the firm from an assurance client represent a large proportion of the revenue from an individual partner's clients.~~

905.3 A5 ~~Examples of actions that might be safeguards to address such a self-interest or intimidation threat include:~~

- ~~• Increasing the client base of the partner to reduce dependence on the assurance client.~~
- ~~• Having an appropriate reviewer who was not an assurance team member review the work.~~

Fees—Overdue

905.4 A1—A self-interest threat might be created if a significant part of fees is not paid before the assurance report, if any, for the following period is issued. It is generally expected that the firm will require payment of such fees before any such report is issued. The requirements and application material set out in Section 911 with respect to loans and guarantees might also apply to situations where such unpaid fees exist.

905.4 A2—Examples of actions that might be safeguards to address such a self-interest threat include:

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the assurance engagement review the work performed.

R905.5—When a significant part of fees due from an assurance client remains unpaid for a long time, the firm shall determine:

- (a) Whether the overdue fees might be equivalent to a loan to the client; and
- (b) Whether it is appropriate for the firm to be re-appointed or continue the assurance engagement.

Contingent Fees

905.6 A1—Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

R905.7—A firm shall not charge directly or indirectly a contingent fee for an assurance engagement.

R905.8—A firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to an assurance client if the outcome of the non-assurance service, and therefore, the amount of the fee, is dependent on a future or contemporary judgement related to a matter that is material to the subject matter information of the assurance engagement.

905.9 A1—Paragraphs R905.7 and R905.8 preclude a firm from entering into certain contingent fee arrangements with an assurance client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to an assurance client, a self-interest threat might still be created.

905.9 A2—Factors that are relevant in evaluating the level of such a threat include:

- The range of possible fee amounts.
- Whether an appropriate authority determines the outcome on which the contingent fee depends.
- Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the subject matter information.

905.9 A3 — Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the relevant assurance work.
- Obtaining an advance written agreement with the client on the basis of remuneration.

905.1 Firms are required to comply with the fundamental principles, be independent and apply the conceptual framework set out in Section 120 to identify, evaluate and address threats to independence.

Commented [SW9]: New section 905

905.2 Fees or other types of remuneration might create a self-interest or intimidation threat. This section sets out specific requirements and application material relevant to applying the conceptual framework to identify, evaluate and address threats to independence arising from fees charged to assurance clients.

Requirements and Application Material

Fees Paid by an Assurance Client

905.3 A1 When fees are negotiated with and paid by an assurance client, this creates a self-interest threat and might create an intimidation threat to independence.

905.3 A2 The application of the conceptual framework requires that before a firm accepts an assurance engagement for an assurance client, the firm determines whether the threats to independence created by the fees proposed to the client are at an acceptable level. The application of the conceptual framework also requires the firm to re-evaluate such threats when facts and circumstances change during the engagement period.

905.3 A3 Factors that are relevant in evaluating the level of threats created when fees are paid by the assurance client include:

- The level of the fees for the assurance engagement and the extent to which they have regard to the resources required, taking into account the firm's commercial and market priorities.
- The extent of any dependency between the level of the fee for, and the outcome of, the service.
- The level of the fee in the context of the service to be provided by the firm or a network firm.
- The significance of the client to the firm or partner.
- The nature of the client.
- The nature of the assurance engagement.
- The involvement of those charged with governance in agreeing fees.
- Whether the level of the fee is set by an independent third party, such as a regulatory body.

905.3 A4 The conditions, policies and procedures described in paragraphs 120.15 A3 (particularly the existence of a quality management system designed and implemented by a firm in accordance with quality management standards issued by the [IAASB New Zealand Auditing and Assurance](#)

Standards Board) might also impact the evaluation of whether the threats to independence are at an acceptable level.

905.3 A5 The requirements and application material that follow identify circumstances which might need to be further evaluated when determining whether the threats are at an acceptable level. For those circumstances, application material includes examples of additional factors that might be relevant in evaluating the threats.

Level of Fees for Assurance Engagements

905.4 A1 Determining the fees to be charged to an assurance client, whether for assurance or other services, is a business decision of the firm taking into account the facts and circumstances relevant to that specific engagement, including the requirements of technical and professional standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.

905.4 A2 Factors that are relevant in evaluating the level of self-interest and intimidation threats created by the level of the fee for an assurance engagement when paid by the assurance client include:

- The firm's commercial rationale for the fee for the assurance engagement.
- Whether undue pressure has been, or is being, applied by the client to reduce the fee for the assurance engagement.

905.4 A3 Examples of actions that might be safeguards to address such threats include:

- Having an appropriate reviewer who does not take part in the assurance engagement assess the reasonableness of the fee proposed, having regard to the scope and complexity of the engagement.
- Having an appropriate reviewer who did not take part in the assurance engagement review the work performed.

Contingent Fees

905.5 A1 Contingent fees are fees calculated on a predetermined basis relating to the outcome of a transaction or the result of the services performed. A contingent fee charged through an intermediary is an example of an indirect contingent fee. In this section, a fee is not regarded as being contingent if established by a court or other public authority.

R905.6 A firm shall not charge directly or indirectly a contingent fee for an assurance engagement.

R905.7 A firm shall not charge directly or indirectly a contingent fee for a non-assurance service provided to an assurance client if the outcome of the non-assurance service, and therefore the amount of the fee, is dependent on a future or contemporary judgment related to a matter that is material to the subject matter information of the assurance engagement.

905.7 A1 Paragraphs R905.6 and R905.7 preclude a firm from entering into certain contingent fee arrangements with an assurance client. Even if a contingent fee arrangement is not precluded when providing a non-assurance service to an assurance client, it might still impact the level of the self-interest threat.

905.7 A2 Factors that are relevant in evaluating the level of such a threat include:

- The range of possible fee amounts.

- Whether an appropriate authority determines the outcome on which the contingent fee depends.
- Disclosure to intended users of the work performed by the firm and the basis of remuneration.
- The nature of the service.
- The effect of the event or transaction on the subject matter information.

905.7 A3 Examples of actions that might be safeguards to address such a self-interest threat include:

- Having an appropriate reviewer who was not involved in performing the non-assurance service review the relevant assurance work.
- Obtaining an advance written agreement with the client on the basis of remuneration.

Total Fees—Overdue Fees

905.8 A1 The level of the self-interest threat might be impacted if fees payable by the assurance client for the assurance engagement or other services are overdue during the period of the assurance engagement.

905.8 A2 It is generally expected that the firm will obtain payment of such fees before the assurance report is issued.

905.8 A3 Factors that are relevant in evaluating the level of such a self-interest threat include:

- The significance of the overdue fees to the firm.
- The length of time the fees have been overdue.
- The firm's assessment of the ability and willingness of the client or other relevant party to pay the overdue fee.

905.8 A4 Examples of actions that might be safeguards to address such a threat include:

- Obtaining partial payment of overdue fees.
- Having an appropriate reviewer who did not take part in the assurance engagement review the work performed.

R905.9 When a significant part of the fees due from an assurance client remains unpaid for a long time, the firm shall determine:

(a) Whether the overdue fees might be equivalent to a loan to the client, in which case the requirements and application material set out in Section 911 are applicable; and

(b) Whether it is appropriate for the firm to be re-appointed or continue the assurance engagement.

Total Fees—Fee Dependency

905.10 A1 When the total fees generated from an assurance client by the firm expressing the conclusion in an assurance engagement represent a large proportion of the total fees of that firm, the dependence on, and concern about the potential loss of, fees from that client impact the level of the self-interest threat and create an intimidation threat.

905.10 A2 A self-interest and intimidation threat is created in the circumstances described in paragraph 905.10 A1 even if the assurance client is not responsible for negotiating or paying the fees for the assurance engagement.

905.10 A3 In calculating the total fees of the firm, the firm might use financial information available from the previous financial year and estimate the proportion based on that information if appropriate.

905.10 A4 Factors that are relevant in evaluating the level of such self-interest and intimidation threats include:

- The operating structure of the firm.
- Where the firm is expected to diversify such that any dependence on the assurance client is reduced.

905.10 A5 Examples of actions that might be safeguards to address such threats include:

- Reducing the extent of services other than assurance engagements provided to the client.
- Increasing the client base of the firm to reduce dependence on the assurance client.

905.10 A6 A self-interest or intimidation threat is created when the fees generated by a firm from an assurance client represent a large proportion of the revenue from an individual partner's clients.

905.10 A7 Factors that are relevant in evaluating the level of such threats include:

- The qualitative and quantitative significance of the assurance client to the partner.
- The extent to which the compensation of the partner is dependent upon the fees generated from the client.

905.10 A8 Examples of actions that might be safeguards to address such a self-interest or intimidation threat include:

- Having an appropriate reviewer who was not an assurance team member review the work.
- Ensuring that the compensation of the partner is not significantly influenced by the fees generated from the assurance client.
- Increasing the client base of the partner to reduce dependence on the client.

OTHER CONSEQUENTIAL AND CONFORMING AMENDMENTS

SECTION 120

THE CONCEPTUAL FRAMEWORK

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Considerations for Audits, Reviews and Other Assurance Engagements

Independence

120.15 A1 Assurance practitioners are required by *International Independence Standards (New Zealand)* to be independent when performing audits, reviews, or other assurance engagements. Independence is linked to the fundamental principles of objectivity and integrity. It comprises:

- (a) Independence of mind – the state of mind that permits the expression of a conclusion without being affected by influences that compromise professional judgement, thereby allowing an individual to act with integrity, and exercise objectivity and professional scepticism.
- (b) Independence in appearance – the avoidance of facts and circumstances that are so significant that a reasonable and informed third party would be likely to conclude that a firm's or an audit or assurance team member's integrity, objectivity or professional scepticism has been compromised.

120.15 A2 *International Independence Standards (New Zealand)* set out requirements and application material on how to apply the conceptual framework to maintain independence when performing audits, reviews or other assurance engagements. Assurance practitioners and firms are required to comply with these standards in order to be independent when conducting such engagements. The conceptual framework to identify, evaluate and address threats to compliance with the fundamental principles applies in the same way to compliance with independence requirements. The categories of threats to compliance with the fundamental principles described in paragraph 120.6 A3 are also the categories of threats to compliance with independence requirements.

120.15 A3 Conditions, policies and procedures described in paragraphs 120.6 A1 and 120.8 A2 that might assist in identifying and evaluating threats to compliance with the fundamental principles might also be factors relevant to identifying and evaluating threats to independence. In the context of audits, reviews and other assurance engagements, the existence of a quality management system designed and implemented by a firm in accordance with the quality management standards issued by the [IAASB-New Zealand Auditing and Assurance Standards Board](#) is an example of such conditions, policies and procedures.

SECTION 270

PRESSURE TO BREACH THE FUNDAMENTAL PRINCIPLES

Requirements and Application Material

General

- R270.3** An assurance practitioner shall not:
- (a) Allow pressure from others to result in a breach of compliance with the fundamental principles; or
 - (b) Place pressure on others that the assurance practitioner knows, or has reason to believe, would result in the other individuals breaching the fundamental principles.
- 270.3 A1 An assurance practitioner might face pressure that creates threats to compliance with the fundamental principles, for example an intimidation threat, when undertaking a professional activity. Pressure might be explicit or implicit and might come from:
- Within the employing organisation, for example, from a colleague or superior.
 - An external individual or organisation such as a vendor, customer or lender.
 - Internal or external targets and expectations.
- 270.3 A2 Examples of pressure that might result in threats to compliance with the fundamental principles include:
- Pressure related to conflicts of interest:
 - Pressure from a family member bidding to act as a vendor to the assurance practitioner's employing organisation to select the family member over another prospective vendor.
- See also Section 210, *Conflicts of Interest*.
- ...
 - **Pressure related to level of fees**
 - Pressure exerted by an assurance practitioner - professional accountant on another professional accountant - assurance practitioner to provide professional-assurance services at a fee level that does not allow for sufficient and appropriate resources (including human, technological and intellectual resources) to perform the services in accordance with technical and professional standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.
- See also Section 330, Fees and Other Types of Remuneration
- 270.3 A3 Factors that are relevant in evaluating the level of threats created by pressure include:
- The intent of the individual who is exerting the pressure and the nature and extent of the pressure.

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SECTION 320

PROFESSIONAL APPOINTMENT

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Requirements and Application Material

Client and Engagement Acceptance

General

320.3 A1 Threats to compliance with the principles of integrity or professional behaviour might be created, for example, from questionable issues associated with the client (its owners, management or activities). Issues that, if known, might create such a threat include client involvement in illegal activities, dishonesty, questionable financial reporting practices or other unethical behaviour.

320.3 A2 ...

320.3 A3 A self-interest threat to compliance with the principle of professional competence and due care is created if the engagement team does not possess, or cannot acquire, the competencies to perform the professional services.

320.3 A4 Factors that are relevant in evaluating the level of such a threat include:

- An appropriate understanding of:
 - The nature of the client's business;
 - The complexity of its operations;
 - The requirements of the engagement; and
 - The purpose, nature and scope of the work to be performed.
- Knowledge of relevant industries or subject matter.
- Experience with relevant regulatory or reporting requirements.
- The existence of quality control policies and procedures designed to provide reasonable assurance that engagements are accepted only when they can be performed competently.
- The level of fees and the extent to which they have regard to the resources required, taking into account the professional assurance practitioner's accountant's commercial and market priorities.

320.3 A5 Examples of actions that might be safeguards...

SECTION 330

FEES AND OTHER TYPES OF REMUNERATION

...

Application Material

Level of Fees

- 330.3 A1 The level of fees might impact an assurance practitioner's ability to perform professional services in accordance with [professional standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board](#).
- 330.3 A2 An assurance practitioner might quote whatever fee is considered appropriate. Quoting a fee lower than another assurance practitioner is not in itself unethical. However, the level of fees quoted creates a self-interest threat to compliance with the principle of professional competence and due care if the fee quoted is so low that it might be difficult to perform the engagement in accordance with standards issued by the External Reporting Board, the New Zealand Auditing and Assurance Standards Board and the New Zealand Accounting Standards Board.
- 330.3 A3 Factors that are relevant in evaluating the level of such a threat include:
- Whether the client is aware of the terms of the engagement and, in particular, the basis on which fees are [charged determined](#) and which professional services [are covered the quoted fee covers](#).
 - Whether the level of the fee is set by an independent third party such as a regulatory body.
- 330.3 A4 Examples of actions that might be safeguards to address such a self-interest threat include:
- Adjusting the level of fees or the scope of the engagement.
 - Having an appropriate reviewer review the work performed.

EFFECTIVE DATE

- For the revised Section 410 and consequential amendments to Part 4A: effective for audits of financial statements for periods beginning on or after 15 December ~~15~~, 2022.
- For the revised Section 905: in relation to assurance engagements with respect to underlying subject matters covering periods of time, effective for periods beginning on or after December 15, 2022; otherwise, effective ~~as of~~ from 15 December ~~15~~, 2022.
- For conforming and consequential amendments to other Sections of the Code: effective ~~as of~~ from 15 December ~~15~~, 2022.

Early adoption will be permitted.

DRAFT

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	5.1
Meeting date:	9 February 2022
Subject:	Annual Improvements and Conforming Amendments to the Domestic Assurance Standards
Date:	13 January 2022
Prepared By:	Vivian Teh

 Action Required
 For Information Purposes Only

Agenda Item Objectives

1. The objective of this agenda item is for the Board to REVIEW and APPROVE the draft Invitation to Comment (ITC) and Exposure Draft (ED) proposing conforming amendments to the Domestic Assurance Standards as a result of the new and revised quality management (QM) standards.

Background

2. The IAASB issued its suite of QM standards and the Conforming Amendments to ISAs and Related Material arising from the QM projects in December 2020. This suite of standards comprises ISQM 1¹, ISQM 2² and ISA 220 (Revised)³. The NZ equivalent quality management standards are Professional and Ethical Standard (PES) 3, PES 4 and ISA (NZ) 220 (Revised) respectively.
3. The effective dates of the new and revised QM standards are as follows:
 - a. ISQM 1/PES 3 is effective as of December 15, 2022;
 - b. ISQM 2/PES 4 is effective for audits and reviews of financial statements for periods beginning on or after December 15, 2022, and other assurance and related services engagements beginning on or after December 15, 2022; and
 - c. ISA 220 (Revised) is effective for audits of financial statements for periods beginning on or after December 15, 2022.
4. The conforming amendments to ISAs (NZ) and Other Pronouncements arising from the QM Standards were issued with the QM standards in July 2021 by the XRB. In January 2022, the IAASB issued the conforming and consequential amendments to the IAASB's other standards as a result of the new and revised QM Standards. The IESBA have also approved and is expected to issue the conforming amendments to the Code shortly.

¹ International Standard on Quality Management (ISQM) 1, *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*.

² ISQM 2, *Engagement Quality Reviews*

³ International Standard on Auditing (ISA) 220 (Revised), *Quality Management on an Audit of Financial Statement*

5. These conforming amendments have previously been exposed in New Zealand in conjunction with the international exposure. We intend to finalise and issue the conforming amendments to NZ equivalent standards by June 2022. However, we have not exposed conforming amendments to the Domestic Assurance Standards⁴ as a result of the QM standards and have therefore developed this ED to ensure that the Domestic Assurance Standards remains consistent and interoperable with other standards.
6. The ED presented in agenda item 5.2 sets out proposed conforming amendments to the NZAuASB's Domestic Assurance Standards to align terminology and reflect revisions to concepts and principles consistent with the recently revised QM standards. These conforming and consequential amendments have a narrow scope and do not involve reconsideration of the objectives, requirements and application material of the Domestic Assurance Standards, in their own right.
7. In reviewing these Domestic Assurance Standards, we have noted additional conforming amendments arising from recent changes including the revision of ISA (NZ) 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment* and the XRB Au1 *Application of Auditing and Assurance Standards*. This ED therefore includes these additional annual improvements.

Matters to Consider

8. The exposure draft includes only those paragraphs where changes are proposed. A tabular presentation format has been used to show the extant text, and the proposed conforming and consequential amendments to the Domestic Assurance Standards.
9. The proposed effective date for the conforming amendments to these Domestic Assurance Standards will be aligned with the effective dates of the quality management standards as outlined above:
 - (a) Standards on assurance engagement beginning on or after 15 December 2022; and
 - (b) New Zealand standard on review engagement for periods beginning on or after 15 December 2022.
10. EG Au2⁵ permits a shorter comment period to be used for urgent or minor matters. We consider the proposed changes to be minor matters. Staff recommend that the exposure draft be issued following the February board meeting with the minimum exposure period of 30 days.

Recommendations

11. We recommend that the Board APPROVE the ITC and ED, with a exposure period of 30 days.

Material Presented

Agenda item 5.1	Board Meeting Summary Paper
Agenda item 5.2	Invitation to Comment and Exposure Draft

⁴ The Domestic Assurance Standards comprise the Standard on Assurance Engagements (SAEs) and the New Zealand Standard on Review Engagements (NZ SREs).

⁵ Explanatory Guide Au2 Overview of the Auditing and Assurance Standard Setting Process



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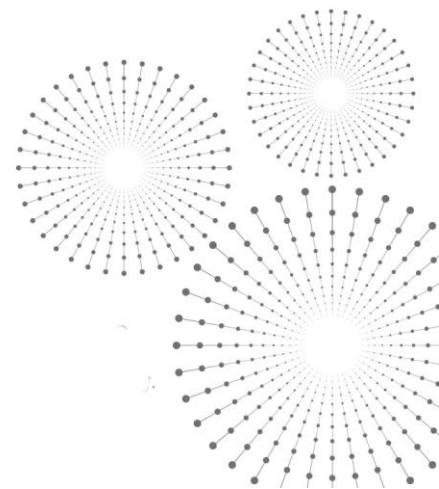
NZAuASB Exposure Draft 2022-X

Annual Improvements and Conforming Amendments to the Domestic Assurance Standards

(NZAuASB ED 2022-X)

Invitation to Comment

February 2022



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Manners St Central, Wellington 6142
New Zealand
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Information for respondents

Invitation to Comment

The New Zealand Auditing and Assurance Standards Board (NZAuASB)¹ is seeking comments on the specific matters raised in this Invitation to Comment. We will consider all responses before finalising Annual Improvements and Conforming Amendments to the Domestic Assurance Standards.

If you want to comment, please supplement your opinions with detailed comments, whether supportive or critical of the proposals, as both supportive and critical comments are essential to a balanced view.

Comments are most useful if they indicate the specific paragraph to which they relate, contain a clear rationale and, where applicable, provide a suggestion for an alternative. Feel free to provide comments only for those questions, or issues, that are relevant to you.

Comments should be submitted electronically using our 'Open for Comment' page at

<https://www.xrb.govt.nz/consultations/assurance-standards-in-development/> [\[Link to update\]](#)

The closing date for submissions is **XX [Month] 2022**.

Publication of submissions, the Official Information Act and the Privacy Act

We intend publishing all submissions on the XRB website (xrb.govt.nz) unless the submission may be defamatory. If you have any objection to publication of your submission, we will not publish it on the internet. However, it will remain subject to the Official Information Act 1982 and, therefore, it may be released in part or full. The Privacy Act 1993 also applies.

If you have any objection to the release of any information contained in your submission, we would appreciate you identifying the parts of your submission to be withheld, and the grounds under the Official Information Act 1982 for doing so (e.g., that it would be likely to unfairly prejudice the commercial position of the person providing the information).

¹ The NZAuASB is a sub-Board of the External Reporting Board (XRB Board) and is responsible for setting auditing and assurance standards.

List of abbreviations

The following abbreviations are used in this Invitation to Comment.

ED	Exposure Draft
ISA (NZ)	International Standard on Auditing (New Zealand)
ITC	Invitation to comment
NZAuASB	New Zealand Auditing and Assurance Standards Board
SAE	Standard on Assurance Engagements
NZ SRE	New Zealand Standard on Review Engagements
QM	Quality Management
XRB	External Reporting Board

Questions for respondents

The NZAuASB is interested in hearing from constituents as to whether they agree with the limited proposed annual improvements and conforming amendments to the domestic assurance standards. Respondents are asked to consider the following specific questions and to respond to the NZAuASB by [Due Date]:

- Question 1 Do you agree with the NZAuASB's proposed annual improvements and conforming amendments to the domestic assurance standards as described in the exposure draft? If not, please explain why not, and what alternative do you propose.

- Question 2. Do you agree with the proposed effective date? If not, please explain why not, and what alternative do you propose?

1. Introduction

1.1 Background

1. This ED proposes annual improvements and conforming and consequential amendments to the Domestic Assurance Standards² in response to the new and revised Quality Management (QM) standards³.
2. The NZAuASB's Domestic Assurance Standards include references to quality management in various ways, ranging from simple references to the title of the standard, i.e., Professional and Ethical Standard (PES) 3⁴, references to the standard, or to terminology drawn from PES 3.
3. The External Reporting Board (XRB) has issued new and revised QM standards in July 2021, based on the international equivalent standards. As a result, the NZAuASB is proposing conforming and consequential amendments to address inconsistencies between the Domestic Assurance Standards with the new and revised QM standards. The purpose of making the amendments is solely to avoid conflicts with the QM standards and to ensure that the Domestic Assurance Standards can continue to be applied together with the QM standards.
4. The ED also include annual improvements to the Domestic Assurance Standards for consistency with other standards. This includes updating the references to ISA (NZ) 315 (Revised) *Identifying and Assessing the Risks of Material Misstatement Through Understanding the Entity and Its Environment* and the XRB Au1 *Application of Auditing and Assurance Standards*.
5. The conforming amendments to ISAs (NZ) and Other Pronouncements arising from the QM Standards were issued with the QM standard in July 2021. In January 2022, the IAASB issued the conforming and consequential amendments to the IAASB's other standards as a result of the new and revised QM Standards. The IESBA has approved the conforming amendments to the Code. These conforming amendments have previously been exposed in New Zealand in conjunction with the international exposure drafts. The NZAuASB expects to finalise and issue all the remaining conforming amendments resulting from the QM standards by June 2022.

1.2 Purpose of this Invitation to Comment

6. The purpose of this Invitation to Comment (ITC) is to seek feedback from stakeholders on Exposure Draft (ED) *Annual Improvements and Conforming Amendments to the Domestic Assurance Standards*.
7. These conforming amendments have a narrow scope and do not involve reconsideration of the objectives, requirements and application material of the Domestic Assurance Standards.

² The NZAuASB's Domestic Assurance Standards comprise the Standard on Assurance Engagements (SAEs) and the New Zealand Standard on Review Engagements (NZ SREs) which are either not issued internationally or which are not being updated internationally.

³ Professional and Ethical Standard (PES) 3, *Quality Management for Firms that Performs Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*; PES 4, *Engagement Quality Reviews*; and International Standard on Auditing (New Zealand) 220, *Quality Management for an Audit of Financial Statements*

⁴ Professional and Ethical Standard (PES) 3, *Quality Management for Firms that Performs Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*

8. The proposed annual improvements and conforming amendments comprise updates to references and other terminology to align with PES 3, PES 4 and other standards. An example of these changes is that the Domestic Assurance Standards include references to the firm's quality control. New terminology in PES 3 refers to 'quality management'. The proposed changes update the terminology in the Domestic Assurance Standards to the new terminology.
9. A tabular presentation format has been used to show the extant text, and the proposed amendments to the Domestic Assurance Standards. Only the paragraphs that have amendments or provide context to the amendments are provided.

1.3 Timeline and next steps

10. Submissions on ED NZAuASB 2022-X are due by [Date]. Information on how to make a submission is provided on page 4 of this ITC.
11. The NZAuASB will consider the submissions received immediately after the consultation period ends. Subject to that feedback, the NZAuASB plans to issue Annual Improvements and Conforming Amendments to the Domestic Assurance Standards in [Month 202X].

1.4 Proposed effective date

12. To align with the effective date of the revised QM standards, the NZAuASB proposes that the conforming amendments to take effect for:
 - (a) Assurance engagements beginning on or after 15 December 2022; and
 - (b) Review of financial statements for periods beginning on or after 15 December 2022.



Te Kāwai Ārahi Pūrongo Mōwaho
EXTERNAL REPORTING BOARD

NZAuASB Exposure Draft 2022-X

Annual Improvements and Conforming Amendments to the Domestic Assurance Standards

CONTENTS

A: Introduction

B: Annual Improvements and Conforming Amendments to the Domestic Assurance Standards

C: Effective Date

A: INTRODUCTION

This document sets out the proposed conforming and consequential amendments to the Domestic Assurance Standards⁵ issued by the NZAuASB due to the new and revised Quality Management (QM) standards⁶. A tabular presentation format has been used to show the extant text and the proposed conforming and consequential amendments to the Domestic Assurance Standards. Underline and strikethrough are used to indicate proposed changes.

⁵ The Domestic Assurance Standards comprise the Standard on Assurance Engagements (SAEs) and the New Zealand Standard on Review Engagements (NZ SREs).

⁶ Professional and Ethical Standard (PES) 3, *Quality Management for Firms that Performs Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*; PES 4, *Engagement Quality Reviews*; and International Standard on Auditing (New Zealand) 220, *Quality Management for an Audit of Financial Statements*

B: Annual Improvements and Conforming Amendments to the Domestic Assurance Standards

Domestic Assurance Standards		Proposed changes to the Domestic Assurance Standards	
Ref	Extant Wording	Notes	Proposed Change
SAE 3100 (Revised)	<i>Assurance Engagements on Compliance</i>		
SAE 3100 (Revised), under Contents	Quality Control		Quality Control and <u>Management</u>
SAE 3100 (Revised), paragraph 8	An assurance engagement performed in accordance with ISAE (NZ) 3000 measures or evaluates the underlying subject matter against suitable criteria. In a compliance engagement the assurance practitioner determines whether compliance requirements have been met by evaluating the subject matter against the compliance requirements, using the criteria. The criteria may be the compliance requirements, or a subset thereof. A table explaining the terminology applied in this SAE is contained in Appendix 2.		An assurance engagement performed in accordance with ISAE (NZ) 3000 (<u>Revised</u>) measures or evaluates the underlying subject matter against suitable criteria. In a compliance engagement the assurance practitioner determines whether compliance requirements have been met by evaluating the subject matter against the compliance requirements, using the criteria. The criteria may be the compliance requirements, or a subset thereof. A table explaining the terminology applied in this SAE is contained in Appendix 2.
SAE 3100 (Revised), paragraph 9	<p>Compliance with ISAE (NZ) 3000 (Revised) requires, among other things, compliance with the provisions of Professional and Ethical Standard 1 <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i> or other professional requirements, or requirements in law or regulation, that are at least as demanding¹. It also requires the lead assurance practitioner² to be a member of a firm that applies Professional and Ethical Standard 3 (Amended)³ or requirements in law or regulation, that are at least as demanding related to assurance engagements.</p> <p>² The term “lead assurance practitioner” is referred to in Professional and Ethical Standard 1 (Revised) and</p>		<p>Compliance with ISAE (NZ) 3000 (Revised) requires, among other things, compliance with the provisions of Professional and Ethical Standard 1 <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i> or other professional requirements, or requirements in law or regulation, that are at least as demanding¹. It also requires the lead assurance practitioner² to be a member of a firm that applies Professional and Ethical Standard 3 (Amended)³ or requirements in law or regulation, that are at least as demanding related to assurance engagements.</p> <p>² The term “lead assurance practitioner” is referred to in Professional and Ethical Standard 1 (Revised) and</p>

Domestic Assurance Standards		Proposed changes to the Domestic Assurance Standards	
Ref	Extant Wording	Notes	Proposed Change
	Professional and Ethical Standard 3 (Amended) as the “engagement partner”.		Professional and Ethical Standard 3 (Amended) as the “engagement partner”.
SAE 3100 (Revised), paragraph 17 (1)	<p>Definitions</p> <p>Firm—A sole assurance practitioner, partnership or corporation or other entity of individual assurance practitioners. “Firm” should be read as referring to its public sector equivalents where relevant.</p>	Wording amended to be consistent with definition in PES 3.	<p>Definitions</p> <p>Firm—A sole assurance practitioner, partnership or corporation or other entity of individual assurance practitioners, <u>or public sector equivalent</u>. “Firm” should be read as referring to its public sector equivalents where relevant.</p>
SAE 3100 (Revised), paragraph 28	<p>Quality Control</p> <p>The assurance practitioner shall implement quality control procedures as required by ISAE (NZ) 3000 (Revised).</p>		<p>Quality ControlManagement</p> <p>The assurance practitioner shall implement quality control<u>management</u> procedures as required by ISAE (NZ) 3000 (Revised).</p>
SAE 3100 (Revised), paragraph 56 (1)	<p><i>Assurance Report Content</i></p> <p>A statement that the firm of which the assurance practitioner is a member applies <i>Professional and Ethical Standard 3 (Amended)</i>, or other professional requirements, or requirements in law and regulation, that are at least as demanding as <i>Professional and Ethical Standard 3 (Amended)</i>. If the assurance practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law and regulation, applied that are at least as demanding as <i>Professional and Ethical Standard 3 (Amended)</i>;</p>		<p><i>Assurance Report Content</i></p> <p>A statement that the firm of which the assurance practitioner is a member applies <i>Professional and Ethical Standard 3 (Amended)</i>, or other professional requirements, or requirements in law and regulation, that are at least as demanding as <i>Professional and Ethical Standard 3 (Amended)</i>. If the assurance practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law and regulation, applied that are at least as demanding as <i>Professional and Ethical Standard 3 (Amended)</i>;</p>
SAE 3100 (Revised), paragraph A65	Professional and Ethical Standard 1 ³⁶ , sets out the approach to be taken by an assurance practitioner who encounters or is made aware of matter(s) of non-compliance or suspected matter(s) of non-compliance		Professional and Ethical Standard 1 ³⁶ , sets out the approach to be taken by an assurance practitioner who encounters or is made aware of matter(s) of non-compliance or suspected matter(s) of non-compliance with laws or regulations. In

Domestic Assurance Standards		Proposed changes to the Domestic Assurance Standards	
Ref	Extant Wording	Notes	Proposed Change
	<p>with laws or regulations, In these circumstances, the assurance practitioner shall consider the appropriate response to the identified matter(s) of non-compliance with laws and regulations in accordance with Professional and Ethical Standard 1 (Revised).</p> <p>³⁶ See Professional and Ethical Standard 1 (Revised), Section 225, Responding to Non-Compliance with Laws and Regulations</p>		<p>these circumstances, the assurance practitioner shall consider the appropriate response to the identified matter(s) of non-compliance with laws and regulations in accordance with Professional and Ethical Standard 1 (Revised).</p> <p>³⁶ See Professional and Ethical Standard 1 (Revised), Section 225260, Responding to Non-Compliance with Laws and Regulations</p>
SAE 3100 (Revised), Appendix 5, Example 1	<p>Example 1: Engagement Letter for an Attestation Engagement for Limited Assurance on ABC’s Statement of compliance with the [compliance requirements] as evaluated against the [suitable criteria]</p> <p>...</p> <p><i>[Our Independence and Quality Control]</i></p> <p>We will comply with the independence and other relevant ethical requirements relating to assurance engagements, and apply Professional and Ethical Standard 3 (Amended), <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements</i> in undertaking this assurance engagement.</p>		<p>Example 1: Engagement Letter for an Attestation Engagement for Limited Assurance on ABC’s Statement of compliance with the [compliance requirements] as evaluated against the [suitable criteria]</p> <p>...</p> <p><i>[Our Independence and Quality ControlManagement]</i></p> <p>We will comply with the independence and other relevant ethical requirements relating to assurance engagements, and apply Professional and Ethical Standard 3 (Amended), <i>Quality ControlManagement for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance or Related Services Engagements</i> in undertaking this assurance engagement.</p>
SAE 3100 (Revised), Appendix 5, Example 2	<p>Example 2: Engagement Letter for an Attestation Engagement for Reasonable Assurance on ABC’s Statement of compliance with the [compliance requirements] as evaluated against the [suitable criteria]</p> <p>...</p> <p><i>[Our Independence and Quality Control]</i></p>		<p>Example 2: Engagement Letter for an Attestation Engagement for Reasonable Assurance on ABC’s Statement of compliance with the [compliance requirements] as evaluated against the [suitable criteria]</p> <p>...</p> <p><i>[Our Independence and Quality ControlManagement]</i></p>

Domestic Assurance Standards		Proposed changes to the Domestic Assurance Standards	
Ref	Extant Wording	Notes	Proposed Change
	We will comply with the independence and other relevant ethical requirements relating to assurance engagements, and apply Professional and Ethical Standard 3, <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements</i> in undertaking this assurance engagement.		We will comply with the independence and other relevant ethical requirements relating to assurance engagements, and apply Professional and Ethical Standard 3, <i>Quality Control Management for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance <u>or Related Services Engagements</u></i> in undertaking this assurance engagement.
SAE 3100 (Revised), Appendix 5, Example 3	<p>Example 3: Engagement Letter for a Direct Engagement for Reasonable Assurance on ABC’s compliance with the [compliance requirements] as evaluated against the [suitable criteria]</p> <p>...</p> <p><i>[Our Independence and Quality Control]</i></p> <p>We will comply with the independence and other relevant ethical requirements relating to assurance engagements, and apply Professional and Ethical Standard 3, <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements</i> in undertaking this assurance engagement.</p>		<p>Example 3: Engagement Letter for a Direct Engagement for Reasonable Assurance on ABC’s compliance with the [compliance requirements] as evaluated against the [suitable criteria]</p> <p>...</p> <p><i>[Our Independence and Quality Control Management]</i></p> <p>We will comply with the independence and other relevant ethical requirements relating to assurance engagements, and apply Professional and Ethical Standard 3, <i>Quality Control Management for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance <u>or Related Services Engagements</u></i> in undertaking this assurance engagement.</p>
SAE 3100 (Revised), Appendix 6, Example 1	<p>Example 1: Limited Assurance Report on ABC’s compliance with the [compliance requirements] as evaluated against the [suitable criteria] (Direct engagement)</p> <p>...</p> <p><i>Our Independence and Quality Control</i></p>	Wording amended to be consistent with international other assurance standards.	<p>Example 1: Limited Assurance Report on ABC’s compliance with the [compliance requirements] as evaluated against the [suitable criteria] (Direct engagement)</p> <p>...</p> <p><i>Our Independence and Quality Control Management</i></p>

Domestic Assurance Standards		Proposed changes to the Domestic Assurance Standards	
Ref	Extant Wording	Notes	Proposed Change
	<p>We have complied with the relevant ethical requirements relating to assurance engagements, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.</p> <p>In accordance with the Professional and Ethical Standard 3 (Amended)⁴⁸ [name of the firm] maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</p> <p>⁴⁸ Professional and Ethical Standard 3 (Amended) “<i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements (Amended)</i>”.</p>		<p>We have complied with the relevant independence and other ethical requirements <u>of Professional Ethical Standard 1 <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards)</i> (New Zealand)</u> issued by the New Zealand Auditing and Assurance Standards Board, which is relating to assurance engagements, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.</p> <p>In accordance with the <u>The firm applies Professional and Ethical Standard 3 (Amended)⁴⁸ [name of the firm], which requires the firm to design, implement and operate</u> maintains a comprehensive system of quality control <u>management</u> including documented policies and/or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</p> <p>⁴⁸ Professional and Ethical Standard 3 (Amended) “<i>Quality Control Management for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance or Related Services Engagements (Amended)</i>”.</p>
SAE 3100 (Revised), Appendix 6, Example 2	<p>Example 2: Reasonable Assurance Report on ABC’s compliance with the [compliance requirements] as evaluated against the [suitable criteria] (Direct engagement)</p> <p>...</p> <p><i>Our Independence and Quality Control</i></p>	Wording amended to be consistent with international other assurance standards.	<p>Example 2: Reasonable Assurance Report on ABC’s compliance with the [compliance requirements] as evaluated against the [suitable criteria] (Direct engagement)</p> <p>...</p> <p><i>Our Independence and Quality Control Management</i></p>

Domestic Assurance Standards		Proposed changes to the Domestic Assurance Standards	
Ref	Extant Wording	Notes	Proposed Change
	<p>We have complied with the relevant ethical requirements relating to assurance engagements, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.</p> <p>In accordance with the Professional and Ethical Standard 3 (Amended) [name of the firm] maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</p>		<p>We have complied with the relevant independence and other ethical requirements <u>of Professional Ethical Standard 1 <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards)</i> (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, which is relating to assurance engagements, which include independence and other requirements</u> founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.</p> <p>In accordance with the <u>The firm applies Professional and Ethical Standard 3 (Amended) [name of the firm], which requires the firm to design, implement and operate</u> maintains a comprehensive system of quality control <u>management</u> including documented policies and/or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</p>
SAE 3100 (Revised), Appendix 6, Example 3	<p>Example 3: Reasonable Assurance Report on ABC’s Statement of Compliance with the [compliance requirements] as evaluated against the [suitable criteria] (Attestation engagement)</p> <p>...</p> <p><i>Our Independence and Quality Control</i></p> <p>We have complied with the relevant ethical requirements relating to assurance engagements, which include independence and other requirements founded on fundamental principles of integrity, objectivity,</p>	Wording amended to be consistent with international other assurance standards.	<p>Example 3: Reasonable Assurance Report on ABC’s Statement of Compliance with the [compliance requirements] as evaluated against the [suitable criteria] (Attestation engagement)</p> <p>...</p> <p><i>Our Independence and Quality Control <u>Management</u></i></p> <p>We have complied with the relevant independence and other ethical requirements <u>of Professional Ethical Standard 1 <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards)</i> (New</u></p>

Domestic Assurance Standards		Proposed changes to the Domestic Assurance Standards	
Ref	Extant Wording	Notes	Proposed Change
	<p>professional competence and due care, confidentiality and professional behaviour.</p> <p>In accordance with the Professional and Ethical Standard 3 (Amended) [name of the firm] maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</p>		<p><u>Zealand</u>) issued by the New Zealand Auditing and Assurance Standards Board, which is relating to assurance engagements, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.</p> <p>In accordance with the <u>The firm applies</u> Professional and Ethical Standard 3-(Amended) [name of the firm] , which <u>requires the firm to design, implement and operate</u> maintains a comprehensive system of quality control <u>management</u> including documented policies and/or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</p>
SAE 3150	<i>Assurance Engagement on Controls</i>		
SAE 3150, under Contents	Quality Control		Quality Control <u>Management</u>
SAE 3150, Paragraph 1	<p>This Standard on Assurance Engagements (SAE) applies to assurance engagements to provide an assurance report on controls at an entity, except for engagements to which International Standard on Assurance Engagements (New Zealand) (ISAE (NZ)) 3402¹ is applicable.² (Ref: Para. A1)</p> <p>² The assurance practitioner applies ISA (NZ) 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment when obtaining an understanding of controls for the purposes of the audit of a financial statement, standards on review engagements when obtaining an understanding of controls for the</p>		<p>This Standard on Assurance Engagements (SAE) applies to assurance engagements to provide an assurance report on controls at an entity, except for engagements to which International Standard on Assurance Engagements (New Zealand) (ISAE (NZ)) 3402¹ is applicable. ² (Ref: Para. A1)</p> <p>² The assurance practitioner applies ISA (NZ) 315 (Revised 2019) Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment when obtaining an understanding of controls for the purposes of the audit of a financial statement, standards on review engagements when obtaining an understanding of controls for the purposes of the review of a financial statement or ISAE (NZ) 3000 (Revised)</p>

Domestic Assurance Standards		Proposed changes to the Domestic Assurance Standards	
Ref	Extant Wording	Notes	Proposed Change
	<p>purposes of the review of a financial statement or ISAE (NZ) 3000 (Revised) <i>Assurance Engagements Other than Audits or Reviews of Historical Financial Information</i>, as revised in July 2014, and any subject matter specific standard when understanding controls for the purposes of an assurance engagement on subject matters other than historical financial information.</p>		<p><i>Assurance Engagements Other than Audits or Reviews of Historical Financial Information</i>, as revised in July 2014, and any subject matter specific standard when understanding controls for the purposes of an assurance engagement on subject matters other than historical financial information.</p>
SAE 3150, Paragraph 9	<p>Compliance with ISAE (NZ) 3000 (Revised) requires, among other things, that the assurance practitioner complies with the provisions of Professional and Ethical Standard 1 <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i> related to assurance engagements or other professional requirements, or requirements in law or regulation, that are at least as demanding. It also requires the lead assurance practitioner⁸ to be a member of a firm that applies Professional and Ethical Standard 3 (Amended) or requirements in law or regulation, that are at least as demanding related to assurance engagements.</p> <p>⁸ The term “lead assurance practitioner” is referred to in Professional and Ethical Standard 1 (Revised) and Professional and Ethical Standard 3 <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements (Amended)</i> as the “engagement partner”.</p>		<p>Compliance with ISAE (NZ) 3000 (Revised) requires, among other things, that the assurance practitioner complies with the provisions of Professional and Ethical Standard 1 <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i> related to assurance engagements or other professional requirements, or requirements in law or regulation, that are at least as demanding. It also requires the lead assurance practitioner⁸ to be a member of a firm that applies Professional and Ethical Standard 3 (Amended) or requirements in law or regulation, that are at least as demanding related to assurance engagements.</p> <p>⁸ The term “lead assurance practitioner” is referred to in Professional and Ethical Standard 1 (Revised) and Professional and Ethical Standard 3 <i>Quality Management for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance or Related Services Engagements</i> Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements (Amended) as the “engagement partner”.</p>
SAE 3150, paragraph 17 (l)	<p>Definitions</p> <p>Firm—A sole assurance practitioner, partnership or corporation or other entity of individual assurance</p>	<p>Wording amended to be consistent with definition in PES 3.</p>	<p>Definitions</p> <p>Firm—A sole assurance practitioner, partnership or corporation or other entity of individual assurance practitioners, or public sector equivalent. “Firm” should be</p>

Domestic Assurance Standards		Proposed changes to the Domestic Assurance Standards	
Ref	Extant Wording	Notes	Proposed Change
	practitioners. “Firm” should be read as referring to its public sector equivalents where relevant.		read as referring to its public sector equivalents where relevant.
SAE 3150, paragraph 28	<p>Quality Control</p> <p>The assurance practitioner shall implement quality control procedures as required by ISAE (NZ) 3000 (Revised).</p>		<p>Quality ControlControlManagement</p> <p>The assurance practitioner shall implement quality control<u>management</u> procedures as required by ISAE (NZ) 3000 (Revised).</p>
SAE 3150, paragraph 88 (k)	<p><i>Assurance Report Content</i></p> <p>A statement that the firm of which the assurance practitioner is a member applies <i>Professional and Ethical Standard 3 (Amended)</i> or requirements in law and regulation, that are at least as demanding;</p>		<p><i>Assurance Report Content</i></p> <p>A statement that the firm of which the assurance practitioner is a member applies <i>Professional and Ethical Standard 3 (Amended)</i> or requirements in law and regulation, that are at least as demanding;</p>
SAE 3150, paragraph A151	<p>For application material on preparing and maintaining documentation refer to ISAE (NZ) 3000 (Revised)⁵¹.</p> <p>⁵¹ ISAE (NZ) 3000 (Revised), paragraph A193-A200.</p>		<p>For application material on preparing and maintaining documentation refer to ISAE (NZ) 3000 (Revised)⁵¹.</p> <p>⁵¹ ISAE (NZ) 3000 (Revised), paragraph A193200-A2007.</p>

Domestic Assurance Standards			Proposed changes to the Domestic Assurance Standards																				
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SAE 3150, Appendix 4	<p><i>Extract of table in Appendix 4</i></p> <p>STANDARDS APPLICABLE TO EXAMPLE ENGAGEMENTS ON COMPLIANCE</p> <table border="1"> <tr> <td></td> <td></td> <td>NON-ASSURANCE STANDARDS</td> </tr> <tr> <td></td> <td></td> <td>Agreed upon Procedures³⁸</td> </tr> <tr> <td>Subject Matter of Compliance Assurance Engagement</td> <td>4. Procedures restricted to those specified by engaging party</td> <td style="text-align: center;">✓</td> </tr> </table> <p>³⁸ The External Reporting Board’s legislative mandate is restricted to standards relating for use in assurance engagements required by statute. Other types of engagements, including compilations and agreed-upon procedures, fall outside of the Board’s authority.</p>				NON-ASSURANCE STANDARDS			Agreed upon Procedures³⁸	Subject Matter of Compliance Assurance Engagement	4. Procedures restricted to those specified by engaging party	✓		<p><i>Extract of table in Appendix 4.</i></p> <p>STANDARDS APPLICABLE TO EXAMPLE ENGAGEMENTS ON COMPLIANCE</p> <table border="1"> <tr> <td></td> <td></td> <td><u>APPLICABLE NZAuASB STANDARDS FOR ASSURANCE ENGAGEMENTS OR RELATED SERVICES NON-ASSURANCE STANDARDS</u></td> </tr> <tr> <td></td> <td></td> <td>ISRS (NZ) 4400 Agreed upon Procedures Engagements³⁸</td> </tr> <tr> <td>Subject Matter of Compliance Assurance Engagement</td> <td>4. Procedures restricted to those specified by engaging party</td> <td style="text-align: center;">✓</td> </tr> </table> <p>³⁸ The External Reporting Board’s legislative mandate is restricted to standards relating for use in assurance engagements required by statute. Other types of engagements, including compilations and agreed-upon procedures, fall outside of the Board’s authority.</p>				<u>APPLICABLE NZAuASB STANDARDS FOR ASSURANCE ENGAGEMENTS OR RELATED SERVICES NON-ASSURANCE STANDARDS</u>			ISRS (NZ) 4400 Agreed upon Procedures Engagements³⁸	Subject Matter of Compliance Assurance Engagement	4. Procedures restricted to those specified by engaging party	✓
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SAE 3150, Appendix 8, Example 1	<p>Example 1: Limited Assurance Report on Design and Description of the Entity’s Controls as at a Specified Date</p> <p>...</p> <p><i>[Our Independence and Quality Control]</i></p> <p>We have complied with the Professional and Ethical Standard 1 <i>International Code of Ethics for Assurance</i></p>		Wording amended to be consistent with international other assurance standards.	<p>Example 1: Limited Assurance Report on Design and Description of the Entity’s Controls as at a Specified Date</p> <p>...</p> <p><i>[Our Independence and Quality Control Management]</i></p> <p>We have complied with the <u>independence and other ethical requirements of Professional and Ethical Standard 1</u></p>																			

Domestic Assurance Standards		Proposed changes to the Domestic Assurance Standards	
Ref	Extant Wording	Notes	Proposed Change
	<p><i>Practitioners (including International Independence Standards) (New Zealand) or other professional ethical requirements, or requirements in law or regulation, that are at least as demanding, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.</i></p> <p>In accordance with Professional and Ethical Standard 3 (Amended) <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements</i> or other professional requirements, or requirements in law or regulation, that are at least as demanding, [name of firm] maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</p>		<p><i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand) issued by the New Zealand Auditing and Assurance Standards Board, or other professional ethical requirements, or requirements in law or regulation, that are at least as demanding, which include independence and other requirements which is founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.</i></p> <p>In accordance with <u>The firm applies</u> Professional and Ethical Standard 3 <i>Quality Management for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance or Related Services Engagements (Amended)</i> Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements or other professional requirements, or requirements in law or regulation, that are at least as demanding, [name of firm] maintains, <u>which requires the firm to design, implement and operate a comprehensive</u> system of quality control <u>management</u> including documented policies and or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</p>
SAE 3150, Appendix 8, Example 2	<p>Example 2: Reasonable Assurance Report on the Design, Description, and Operating Effectiveness of the Entity’s Controls throughout the Period Independent Assurance Practitioner’s Report</p> <p>...</p> <p><i>[Our Independence and Quality Control]</i></p>	Wording amended to be consistent with international other assurance standards.	<p>Example 2: Reasonable Assurance Report on the Design, Description, and Operating Effectiveness of the Entity’s Controls throughout the Period Independent Assurance Practitioner’s Report</p> <p>...</p> <p><i>[Our Independence and Quality Control Management]</i></p>

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	<p>We have complied with the Professional and Ethical Standard 1 <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i> or other professional ethical requirements, or requirements in law or regulation, that are at least as demanding, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.</p> <p>In accordance with Professional and Ethical Standard 3 <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements</i> or other professional requirements, or requirements in law or regulation, that are at least as demanding, [name of firm] maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</p>		<p>We have complied with the <u>independence and other ethical requirements of</u> Professional and Ethical Standard 1 <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i> <u>issued by the New Zealand Auditing and Assurance Standards Board,</u> or other professional ethical requirements, or requirements in law or regulation, that are at least as demanding, which include independence and other requirements <u>which is</u> founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.</p> <p>In accordance with <u>The firm applies</u> Professional and Ethical Standard 3 <i>Quality Management for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance or Related Services Engagements</i> Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements or other professional requirements, or requirements in law or regulation, that are at least as demanding, [name of firm] maintains, <u>which requires the firm to design, implement and operate</u> a comprehensive system of quality control<u>management</u> including documented policies and or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</p>
SAE 3150, Appendix 8, Example 3	Example 3: Reasonable Assurance Report on the Design and Implementation of the Entity’s Controls as at a Specified Date ...	Wording amended to be consistent with international other assurance standards.	Example 3: Reasonable Assurance Report on the Design and Implementation of the Entity’s Controls as at a Specified Date ...

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	<p><i>[Our Independence and Quality Control]</i></p> <p>We have complied with the Professional and Ethical Standard 1 <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i> or other professional ethical requirements, or requirements in law or regulation, that are at least as demanding, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.</p> <p>In accordance with Professional and Ethical Standard 3 (Amended) <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements</i> or other professional requirements, or requirements in law or regulation, that are at least as demanding, [name of firm] maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</p>		<p><i>[Our Independence and Quality Control Management]</i></p> <p>We have complied with the <u>independence and other ethical requirements</u> of Professional and Ethical Standard 1 <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i> <u>issued by the New Zealand Auditing and Assurance Standards Board,</u> or other professional ethical requirements, or requirements in law or regulation, that are at least as demanding, which include independence and other requirements <u>which is</u> founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.</p> <p>In accordance with <u>The firm applies</u> Professional and Ethical Standard 3 <i>Quality Management for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance or Related Services Engagements (Amended)</i> Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements or other professional requirements, or requirements in law or regulation, that are at least as demanding, [name of firm] maintains, <u>which requires the firm to design, implement and operate a comprehensive</u> system of quality control <u>management</u> including documented <u>policies and</u> procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</p>

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SAE 3150, Appendix 8, Example 4	<p>Example 4: Reasonable Assurance Report on the Design and Operating Effectiveness of the Entity’s Controls throughout the Period</p> <p>...</p> <p><i>[Our Independence and Quality Control]</i></p> <p>We have complied with the Professional and Ethical Standard 1 <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i> or other professional ethical requirements, or requirements in law or regulation, that are at least as demanding, which include independence and other requirements founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.</p> <p>In accordance with Professional and Ethical Standard 3 (Amended) <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements</i> or other professional requirements, or requirements in law or regulation, that are at least as demanding, [name of firm] maintains a comprehensive system of quality control including documented policies and procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.</p>	<p>Wording amended to be consistent with international other assurance standards.</p>	<p>Example 4: Reasonable Assurance Report on the Design and Operating Effectiveness of the Entity’s Controls throughout the Period</p> <p>...</p> <p><i>[Our Independence and Quality-ControlManagement]</i></p> <p>We have complied with the <u>independence and other ethical requirements</u> of Professional and Ethical Standard 1 <i>International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)</i> <u>issued by the New Zealand Auditing and Assurance Standards Board</u>, or other professional ethical requirements, or requirements in law or regulation, that are at least as demanding, which include independence and other requirements <u>which is</u> founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.</p> <p>In accordance with <u>The firm applies</u> Professional and Ethical Standard 3 <i>Quality Management for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance or Related Services Engagements (Amended)</i> Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements or other professional requirements, or requirements in law or regulation, that are at least as demanding, [name of firm] maintains, <u>which requires the firm to design, implement and operate a comprehensive system of quality control management</u> including documented <u>policies and/or procedures</u> regarding compliance with ethical requirements,</p>

Domestic Assurance Standards		Proposed changes to the Domestic Assurance Standards	
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			professional standards and applicable legal and regulatory requirements.
NZ SRE 2410 (Revised)	<i>Review of Financial Statements Performed by the Independent Auditor of the Entity</i>		
NZ SRE 2410 (Revised), paragraph 9	The auditor shall implement quality control procedures that are applicable to the individual engagement. (Ref: Para. A6)	Wordings added to reiterate that quality management procedures are in accordance with PES 3.	The auditor shall implement quality control <u>management</u> procedures that are applicable to the individual engagement. (Ref: Para. A6)
NZ SRE 2410 (Revised), paragraph 10	The auditor shall comply with the engagement quality control requirements of ISA (NZ) 220 ¹ when performing a review engagement in accordance with this NZ SRE 2410 (Revised). ¹ ISA (NZ) 220, Quality Control for an Audit of Financial Statements.		The auditor shall comply with the engagement quality control <u>management</u> requirements of ISA (NZ) 220 (Revised) ¹ when performing a review engagement in accordance with this NZ SRE 2410 (Revised). ¹ ISA (NZ) 220 (Revised), Quality Control <u>Management</u> for an Audit of Financial Statements.
NZ SRE 2410 (Revised), paragraph 14	The auditor shall obtain an understanding of the entity and its environment, including its internal control, as it relates to the preparation of both the annual and interim or other financial statements, sufficient to plan and conduct the engagement so as to be able to:		The auditor shall obtain an understanding of the entity and its environment, <u>the applicable financial reporting framework, and the components of the entity's system of</u> including its internal control, as it relates to the preparation of both the annual and interim or other financial statements, sufficient to plan and conduct the engagement so as to be able to:
NZ SRE 2410 (Revised), paragraph A4	Through performing the audit of the annual financial statements, the auditor obtains an understanding of the entity and its environment, including its internal control. When the auditor is engaged to review the financial statements, under paragraph 14, the auditor needs to		Through performing the audit of the annual financial statements, the auditor obtains an understanding of the entity and its environment, <u>the applicable financial reporting framework, including its internal control.</u> When the auditor is engaged to review the financial statements, under

Domestic Assurance Standards		Proposed changes to the Domestic Assurance Standards	
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	<p>update this understanding through enquiries made in the course of the review, to assist the auditor in focusing the enquiries to be made and the analytical and other review procedures to be applied. An assurance practitioner who is engaged to perform a review of the financial statements, and who is not the auditor of the entity, does not perform the review in accordance with NZ SRE 2410 (Revised)*, as the assurance practitioner ordinarily does not have the same understanding of the entity and its environment, including its internal control, as the auditor of the entity. Although other International Standards on Auditing (New Zealand) do not apply to review engagements, they include guidance which may be helpful to auditors performing reviews covered by this NZ SRE 2410 (Revised).</p>		<p>paragraph 14, the auditor needs to update this understanding through enquiries made in the course of the review, to assist the auditor in focusing the enquiries to be made and the analytical and other review procedures to be applied. An assurance practitioner who is engaged to perform a review of the financial statements, and who is not the auditor of the entity, does not perform the review in accordance with NZ SRE 2410 (Revised)*, as the assurance practitioner ordinarily does not have the same understanding of the entity and its environment, including its internal control, as the auditor of the entity. Although other International Standards on Auditing (New Zealand) do not apply to review engagements, they include guidance which may be helpful to auditors performing reviews covered by this NZ SRE 2410 (Revised).</p>
NZ SRE 2410 (Revised), paragraph A6	<p>The elements of quality control that are relevant to an individual engagement include leadership responsibilities for quality on the engagement, ethical requirements, acceptance and continuance of client relationships and specific engagements, assignment of engagement teams, engagement performance, and monitoring. (Ref: Para. 9)</p>		<p>The elements of quality control <u>management</u> that are relevant to an individual engagement include leadership responsibilities for <u>managing and achieving</u> quality on the engagement, <u>relevant</u> ethical requirements, acceptance and continuance of client relationships and specific engagements, assignment of engagement teams <u>engagement resources</u>, engagement performance, and <u>monitoring and remediation</u>. <u>The system of quality management, and policies or procedures are the responsibility of the firm. Professional and Ethical Standard 3 (PES 3) <i>Quality Management for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance or Related Services Engagements</i> applies to firms in respect of the firm’s engagement to review financial statements.</u> (Ref: Para. 9)</p>

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NZ SRE 2410 (Revised), paragraph A9	Under ISA (NZ) 315 <i>Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment</i> , the auditor who has audited the entity’s financial statements for one or more annual periods has obtained an understanding of the entity and its environment, including its internal control, as it relates to the preparation of the annual financial statements, that was sufficient to conduct the audit. In planning a review of the financial statements, the auditor needs to update this understanding. The auditor also needs to obtain a sufficient understanding of internal control as it relates to the preparation of the financial statements subject to review, as it may differ from internal control as it relates to the preparation of the annual financial statements. (Ref: Para. 14)		Under ISA (NZ) 315 <u>(Revised 2019) Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment</u> , the auditor who has audited the entity’s financial statements for one or more annual periods has obtained an understanding of the entity and its environment, <u>the applicable financial reporting framework</u> , including its internal control, as it relates to the preparation of the annual financial statements, that was sufficient to conduct the audit. In planning a review of the financial statements, the auditor needs to update this understanding. The auditor also needs to obtain a sufficient understanding of <u>the entity’s system of</u> internal control as it relates to the preparation of the financial statements subject to review, as it may differ from internal control as it relates to the preparation of the annual financial statements. (Ref: Para. 14)
NZ SRE 2410 (Revised), paragraph A11	The procedures performed by the auditor to update the understanding of the entity and its environment, including its internal control, ordinarily include the following: ... (j) enquiring of management about the effect of changes in the entity’s business activities;		The procedures performed by the auditor to update the understanding of the entity and its environment, including its internal control, ordinarily include the following: ... (j) enquiring of management <u>and of other appropriate individuals within the entity</u> about the effect of changes in the entity’s business activities;
NZ SRE 2410 (Revised), paragraph A19	A review ordinarily does not require tests of the accounting records through inspection, observation or confirmation. Procedures for performing a review of the		A review ordinarily does not require tests of the accounting records through inspection, observation or confirmation. Procedures for performing a review of the financial

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	financial statements ordinarily are limited to making enquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures, rather than corroborating information obtained concerning matters relating to the financial statements. The auditor's understanding of the entity and its environment, including its internal control, the results of the risk assessments relating to the preceding audit and the auditor's consideration of materiality as it relates to the financial statements, affects the nature and extent of the enquiries made, and analytical and other review procedures applied. (Ref: Para. 17)		statements ordinarily are limited to making enquiries, primarily of persons responsible for financial and accounting matters and applying analytical and other review procedures, rather than corroborating information obtained concerning matters relating to the financial statements. The auditor's understanding of the entity and its environment, <u>the applicable financial reporting framework, the components of the entity's system of</u> including its internal control, the results of the risk assessments relating to the preceding audit and the auditor's consideration of materiality as it relates to the financial statements, affects the nature and extent of the enquiries made, and analytical and other review procedures applied. (Ref: Para. 17)
NZ SRE 2410 (Revised), paragraph A20	The auditor ordinarily performs the following procedures: ... (xv) knowledge of any actual or suspected non-compliance with laws and regulations that could have a material effect on the financial statements. If the auditor becomes aware of any actual or suspected non compliance with laws and regulations ISA (NZ) 250 <i>Consideration of Laws and Regulations in an Audit of Financial Statements</i> provides guidance.		The auditor ordinarily performs the following procedures: ... (xv) knowledge of any actual or suspected non-compliance with laws and regulations that could have a material effect on the financial statements. If the auditor becomes aware of any actual or suspected non-compliance with laws and regulations ISA (NZ) 250 <u>(Revised)</u> <i>Consideration of Laws and Regulations in an Audit of Financial Statements</i> provides guidance.

C: EFFECTIVE DATE

To align with the effective date of the revised QM standards, the NZAuASB proposes that the conforming amendments take effect for:

- (a) Assurance engagements beginning on or after 15 December 2022; and
- (b) Review of financial statements for periods beginning on or after 15 December 2022.

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO.	6.1
Meeting date:	9 February 2022
Subject:	Service Performance Information Project Update
Date:	26 January 2022
Prepared By:	Lisa Thomas

 Action Required **For Information Purposes Only**

Agenda Item Objective

1. For the Board to:
 - NOTE the update on the project to develop a standard for Service Performance Information.

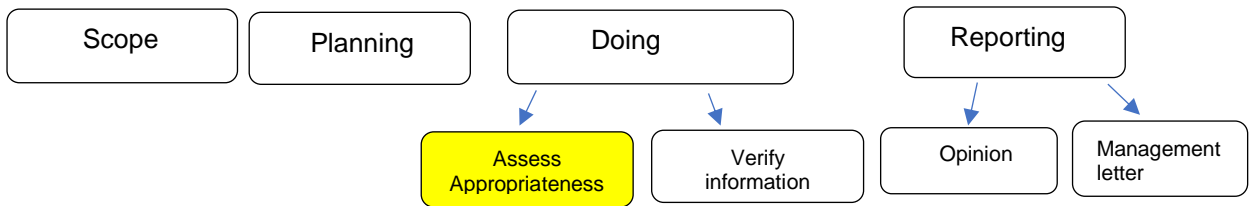
Background

2. Representatives from the XRB and the OAG met on 9 December 2021 to discuss the development of an auditing standard for service performance information that meets the requirements of both not-for-profit and public sector public benefit entities.
3. Representatives from the OAG were Greg Schollum (Deputy Controller and Auditor-General) and David Eng (Director of Performance Reporting), and from the XRB Mark Maloney, John Kensington and Lisa Thomas. The meeting was chaired by April Mackenzie however will be chaired by Karen Shires going forward.
4. The meeting was positive with both parties committed and acknowledging the strategic importance of the project.
5. A “Greenfields” approach is being adopted building a standard for the NZ market from the top down. The project is not intended to be about bringing AG 4 and NZ AS 1 together.
6. The outcome of the first meeting was agreement on the purpose of the audit of service performance reports and the stages of an audit necessary to form an opinion.

Reporting Objective *The presentation of service performance information together with financial information enable the user of a general-purpose financial report to make an informed assessment about the underlying performance of that entity.*

Audit Objective *To obtain assurance that service performance information fairly reflects the performance of the entity.*

Assurance stages to achieve audit objective



Next Steps

7. The next meeting is scheduled for 1 February 2022 where it was agreed that due to the complexity of the topic, “the assessment of appropriate and meaningful service performance information” will be prioritised, as highlighted. Discussions will focus on:
 - a. What does appropriate and meaningful mean?
 - b. How does the auditor assess that "appropriate information" has been reported?
 - c. How would materiality be applied?
8. Further meetings will occur monthly. The timeline below outlines the proposed steps for the project using the stages agreed on at the December 2021 meeting.

Date	Actions
Feb- April 2022	1) Appropriate and meaningful discussions 2) Draft standard wording
May 2022	1) Obtain feedback on “appropriate and meaningful” wording 2) “Verify information” discussions
June 2022	1) Obtain feedback on “verify information” wording 2) “Scope” discussions
July 2022	1) Obtain feedback on “Scope” wording 2) “Planning” discussions
August 2022	1) Obtain feedback on “Planning” wording 2) “Reporting” discussions
September 2022	1) Obtain feedback on “Reporting” discussions 2) First read of full proposed standard
October 2022	1) Communicate to constituents proposed framework for Statement of Service Performance assurance engagements i.e. the future of NZ AS 1 and proposed new standard, alignment with FRS 48. 2) Release of exposure draft allowing 90 day comment period
November 2022 – January 2023	Comments on exposure draft received

Recommendation

9. We recommend that the Board:
 - a. NOTE the project update for the development of a Service Performance Information standard.

Material Presented

Agenda item

Board Meeting Summary Paper

Date: 26 January 2022

To: NZAuASB Members

From: Peyman Momenan

Subject: **Application of the Modified Audit Report Policy**

Purpose and introduction

1. The purpose of this paper is to inform the Board of the modified audit reports received for the period from 1 January to 31 December 2021 and to consider whether there are any implications for the accounting standards.
2. Modified audit reports are received from auditors who are required to submit modified audit reports to the XRB under the Companies Act 1993 and the Financial Markets Conduct Act 2013.

Recommendation

3. We recommend that the Board AGREES there are no implications for the auditing standards from the modified audit reports received for the period to 31 December 2021.

Background

4. The Companies Act 1993 and the Financial Markets Conduct Act 2013 both require an auditor to send a copy of the audit report, and a copy of the financial statements or group financial statements, to the XRB (and other specified parties) if the financial reporting requirements of those Acts have not been complied with.
5. The Modified Audit Reports Policy¹ sets out the processes to be followed by the XRB Board and its sub-Boards, the NZASB and the NZAuASB, in respect of such audit reports. The Modified Audit Reports Policy also applies when modified audit reports are referred to the XRB by any other party.
6. The key aspects of the Modified Audit Reports Policy in respect to the Board review are as follows. The NZAuASB's review will:
 - (a) focus on modified audit opinions in relation modified audit opinions in relation to when the auditor has been unable to obtain sufficient audit evidence.
 - (b) consider implications for the relevant auditing standards by ensuring that the modified audit opinions do not raise any potential issues about the appropriateness, applicability, clarity and/or completeness of the relevant auditing standards.

¹ In August 2016, the *Policy for dealing with audit reports received under the Companies Act 1993 and the Financial Markets Conduct Act 2013* was approved.

7. No action needs to be taken by the NZAuASB (or XRB and NZASB) if the modification of the audit opinion results from non-compliance by an entity of an otherwise appropriate accounting standard. Non-compliance is a matter for the appropriate regulator.

Modified audit reports received in the review period

8. In the period to 31 December 2021, we have received 15 modified audit reports. The modified audit reports received include those audit reports (and accompanying financial statements) that have been uploaded directly to the XRB website and any other reports received from regulators.
9. During the period, we have engaged with the FMA on a regular basis to share information on modified audit reports received to ensure we have a complete set of modified audit reports (as some entities may submit to the regulator and not the XRB even though there is a legal requirement to do so). We are also in contact with the Companies Office.
10. [Appendix A](#) provides a summary of the types of modified audit reports received during this review period and the main reason(s) for the modification.
11. [Appendix B](#) provides a full list of the modified audit reports received in the period, including the basis for the modification and the proposed action from staff. In all cases the proposed action is 'Nil' as we have not identified any modified audit reports that indicate an issue with the auditing standards. The NZASB also did not identify any issues with accounting standards.
12. In the previous review period, we observed an increase in audit report modifications in relation to going concern matters due to the uncertainty and disruption caused by COVID-19. There were also several modifications related to the carrying value of assets (e.g. goodwill, property, plant and equipment and investments) which have associated impairment implications.

Current review period observations

13. In the current review period, of the 15 modified audit reports received, 7 of the modifications are the same as for the previous review period. This is because the reason for the modification in the previous reporting period often impacts on the next period (e.g., valuation of inventory).

Disclaimer of opinion – 8 audit reports

14. Of the eight audit reports that contain a disclaimer of opinion relating to accounting records, three occurred due to a change in Fund Manager during the period and one due to the appointment of an auditor after the balance date. One of these audit reports also contained a modification in relation to revenue recognition and going concern due to incomplete records. The remaining four disclaimers were due to concerns with an inability to obtain sufficient appropriate audit evidence regarding the going concern assumption.

Qualified opinion – 7 audit reports

15. Of the 7 audit reports containing a qualified opinion, two relate to an inability to substantiate certain accounting records due to a change in IT provider during the period. Four qualifications relate to valuation issues concerning investment property, goodwill and other

indefinite life intangibles. One relates to inventory valuation due to an inability to substantiate opening inventory balances due to COVID-19. Finally, one modification relates to the auditor's inability to obtain sufficient and appropriate evidence to support valuation of a group of financial assets.

No implications for the auditing standards

16. Our review has not identified any implications for the auditing standards from the modified audit reports received from 1 January 2021 – 31 December 2021. We note that the NZASB did not identify any issues for accounting standards either.

Question for the Board

- Q1. Does the Board AGREE that there are no implications for the auditing standards from the modified audit reports received from 1 January to 31 December 2021?

Appendix A – Summary of modified audit reports received in the review period

Modification in relation to:	Adverse Opinion	Disclaimer of Opinion	Qualified Opinion
	Financial statements are materially misstated	Unable to obtain sufficient appropriate audit evidence	Unable to obtain sufficient appropriate audit evidence
Valuation of investment property	–	–	1
Carrying amount of goodwill and other indefinite life intangibles	–	–	2
Accounting records	–	3 ²	2 ³
Going concern	–	5 ⁴	
Valuation of inventory	–	2 ⁵	1
Valuation of financial assets			1
Sub-total	0	10	7
Total			17⁶

² For #427, #428 and #429 the Supervisor exercised its power under the FMC Act 2013 to remove the Fund Manager.

³ This is two accounting periods for the same entity (#419 and #421)

⁴ For #422 and #431 same as previous period.

⁵ For #420 auditor appointed after balance date and not able to observe inventories at balance date.

⁶ 15 audit reports received but in one instance (#420) more than one reason for the modification.

Appendix B — Modified Audit Reports received in the review period

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion	Accounting standard(s) affected	Same reason as previous year?	Proposed action - NZASB	Proposed action- NZAuASB
1.	419 Derivates Issuer BD: 31 Dec 2019 AR: 9 Mar 2021	Qualified Opinion The Group's IT related systems were maintained by a third-party software provider for a substantial part of the financial year. Management's ability to access these systems was restricted by the software provider during the year and the Group had to migrate to new systems. As a result, client related historical archived information could not be accessed. This restriction on the access to client records and supporting documentation meant the auditor was unable to obtain sufficient appropriate evidence around the completeness, existence and accuracy of certain financial statement line items.	-	No	Nil.	Nil.
2.	420 Seller of Whisky BD: 31 Mar 2020 AR: 30 Apr 2021	Disclaimer of Opinion The auditor was appointed after balance date and therefore did not observe physical inventories at balance date. It was impracticable to examine revenue recognition because of incomplete records. The auditor was unable to obtain sufficient appropriate evidence to support management's use of the going concern basis of accounting.	NZ IAS 1 <i>Presentation of Financial Statements</i> NZ IAS 2 <i>Inventory</i> NZ IFRS 15 <i>Revenue from Contracts with Customers</i>	No	Nil.	Nil.
3.	421 Derivatives Issuer	Qualified Opinion	-	No	Nil.	Nil.

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion	Accounting standard(s) affected	Same reason as previous year?	Proposed action - NZASB	Proposed action- NZAuASB
	BD: 31 Dec 2020 AR: 30 Apr 2021	Unable to substantiate opening balances. The same entity as #419 above. The entity received a qualified opinion for its 2019 and 2020 balance dates.				
3.	422 Ski Lift operator BD: 30 Nov 2020 AR: 30 Apr 2021	Disclaimer of Opinion Audit evidence could not be obtained to substantiate going concern due to debt being on demand and a planned capital restructure.	NZ IAS 1 <i>Presentation of Financial Statements</i>	Yes (#385)	Nil. No issues identified with accounting standards.	Nil.
4.	423 Healthcare products manufacturing BD: 31 Mar 2021 AR: 26 May 2021	Qualified Opinion Unable to obtain sufficient appropriate audit evidence concerning opening inventory balances in the current year due to Covid-19.	NZ IAS 2 <i>Inventory</i>	Yes (#387)	Nil. No issues identified with accounting standards.	Nil.
5.	424 Provider of vocational programmes, courses and training for international and domestic students and	<u>Previously reviewed by the NZAuASB #408 but resubmitted as #424</u> Qualified Opinion For FY 31 December 2017 (unaudited consolidated financial statements) the directors concluded the goodwill balance of \$109.3 million was not impaired. In 2018, the directors concluded that the carrying amount of goodwill would not be fully recovered. This resulted in an impairment of goodwill of \$32.5 million at 31 December 2018.	NZ IAS 36 <i>Impairment of Assets</i>	Yes (#409)	Nil. No issues identified with accounting standards.	Nil.

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion	Accounting standard(s) affected	Same reason as previous year?	Proposed action - NZASB	Proposed action- NZAuASB
	New Zealand businesses BD: 31 Dec 2017 AR: 31 May 2021	Based on 2018 audit work, the auditors concluded that the impairment should have been recognised for the year ended 31 December 2017. In line with this the unaudited FY 2017 loss should be higher, corresponding retained losses increased and total equity reduced. The loss for FY 2018 should also be reduced to reflect the goodwill impairment in the correct period.				
6.	425 Finance (<i>deposit taking and lending; investment advisory and research provider</i>) BD: 31 Mar 2021 AR: 29 Jun 2021	Qualified Opinion Unable to obtain sufficient appropriate audit evidence to determine the recoverable amount of goodwill and other indefinite life intangible assets.	NZ IAS 38 <i>Intangible Assets</i>	Yes (#393)	Nil. No issues identified with accounting standards.	Nil.
7.	426 Precious Metal Mint BD: 31 Mar 2021 AR: 8 July 2021	Qualified Opinion Unable to obtain sufficient appropriate audit evidence concerning opening inventory balances due to the effects of Covid-19.	NZ IAS 2 <i>Inventories</i>	Yes (#396)	Nil. No issues identified with accounting standards.	Nil.
8.	427 Group	Disclaimer of Opinion During the financial year, the Supervisor exercised its	-	No	Nil. No issues	Nil.

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion	Accounting standard(s) affected	Same reason as previous year?	Proposed action - NZASB	Proposed action- NZAuASB
	Investment Fund BD: 31 Mar 2021 AR: 24 Aug 2021	power under the Financial Markets Conduct Act 2013 to remove the Fund Manager. Therefore, in preparing the financial statements, certain transactions occurred under the control of the previous Manager. The new Manager was unable to provide written representations under ISA (NZ) 580 that all transactions have been recorded and are reflected in the financial statements.			identified with accounting standards.	
9.	428 Group Investment Fund	Disclaimer of Opinion The same reason as #427 above.	-	No	Nil. No issues identified with accounting standards.	Nil.
10.	429 Group Investment Fund BD: 31 Mar 2021 AR: 24 Aug 2021	Disclaimer of Opinion The same reason as #427 and #428 above.	-	No	Nil. No issues identified with accounting standards.	Nil.
11.	430 Property Lending and Investment BD: 31 Mar 2021	Qualified Opinion Unable to obtain sufficient appropriate audit evidence to support the fair value of investment property as at 31 March 2021.	NZ IFRS 13 <i>Fair Value Measurement</i>	Yes (#400)	Nil. No issues identified with accounting standards.	Nil.

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion	Accounting standard(s) affected	Same reason as previous year?	Proposed action - NZASB	Proposed action- NZAuASB
	AR: 3 Sept 2021					
12.	431 Branch of an international airline BD: 31 Dec 2020 AR: 23 Sep 2021	Disclaimer of Opinion Unable to obtain sufficient appropriate audit evidence to enable the auditor to form an opinion on whether the going concern assumption in the preparation of the financial statements is appropriate.	NZ IAS 1 <i>Presentation of Financial Statements</i>	Yes (#403)	Nil. No issues identified with accounting standards.	Nil.
13.	432 Wool Broking BD: 30 Jun 2021 AR: 30 Oct 2021	Qualified Opinion Company has an advance at balance date subsequently swapped for some shares. Auditors was unable to determine the value of the shares and therefore the value of the advance at balance date.	NZ IFRS 9	N/A first time	(yet to be considered by the NZASB) ⁷	Nil.
14.	433 providing tertiary education BD: 30 Jun 2021 AR: 30 Nov 2021	Disclaimer of Opinion Unable to obtain sufficient appropriate audit evidence to enable the auditor to form an opinion on whether the going concern assumption in the preparation of the financial statements is appropriate.	NZ IAS 1 <i>Presentation of Financial Statements</i>	No	(yet to be considered by the NZASB)	Nil.
15.	434	Unable to obtain sufficient appropriate audit evidence to enable the auditor to form an opinion on whether	NZ IAS 1	No	(yet to be considered by the NZASB)	Nil.

⁷ The NZASB has viewed modified reports received by the XRB up to 31 November 2021 which does not include 3 modified reports (items 13 to 15 in this agenda item) received in December 2021.

	Industry Balance date (BD) Audit Report (AR) date	Type of modified audit opinion	Accounting standard(s) affected	Same reason as previous year?	Proposed action - NZASB	Proposed action- NZAuASB
	Issuer of debt securities BD: 31 Dec 2020 AR: 8 Dec 2021	the going concern assumption in the preparation of the financial statements is appropriate.	<i>Presentation of Financial Statements</i>			

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 8.1

Meeting date: 9 February 2022

Subject: International Update

Date: 27 January 2022

Prepared By: Peyman Momenan

Action Required

For Information Purposes Only

Introduction

1. This Update summarises the significant news of the IAASB, other national auditing standards-setting bodies and professional organisations for the Board's information, for December 2021 and January 2022.

International Federation of Accountants (IFAC)

1. To help professional accountants and stakeholders better understand these topics, the Chartered Professional Accountants of Canada (CPA Canada), the Institute of Chartered Accountants of Scotland (ICAS), the International Ethics Standards Board for Accountants (IESBA), and the International Federation of Accountants (IFAC) have released [Technology is a double-edged sword with both opportunities and challenges for the accountancy profession](#), the second in a four-part thought leadership series examining the professional accountant's role in a new technological era.
2. In December 2022, IFAC published its vision for [high-quality assurance of sustainability information](#)—calling out best practices identified during its year-long, global engagement campaign related to the [State of Play in Sustainability Assurance](#). This vision addresses the importance of global standards, regulation that supports decision-useful disclosure, and the value of an interconnected approach to sustainability and financial information reporting *and* assurance.

International Auditing and Assurance Standards Board (IAASB)

1. The IAASB Ongoing projects (refer to appendix 1).
2. Welcome to the second market scan from the IAASB's Disruptive Technology team. Building on our previous work, including the [Innovation Report](#) created with [Founders Intelligence](#) and discussed at the January 2021 IAASB meeting, we will issue a Market Scan focusing on topics from the report approximately every two months. Market Scans will consist of exciting trends, including new developments, corporate and start-up innovation, noteworthy investments and what it all might mean for the IAASB.
In this Market Scan, we explore **API Access to External Data Sources for Enriched Analysis**, which falls under **Accessing Information & Data**, because establishing a method for obtaining relevant and reliable external data that can be used in an audit has the potential to reshape the audit process. (read more [here](#))
3. The International Auditing and Assurance Standards Board (IAASB) approved a new work plan, [A Public Interest Focus in Uncertain Times](#), during its December 2021 meeting. Pending approval by

the Public Interest Oversight Board (PIOB), anticipated in early April 2022, the work plan will guide the IAASB's work in 2022 and 2023, reflecting the [IAASB Strategy for 2020-2023](#).

4. Momentum is gathering for increased sustainability/environmental, social, and governance (ESG) reporting requirements for companies. Investors, policymakers, and a broad range of stakeholders seek higher quality, increasingly standardized reporting on companies' performance on non-financial measure. And with this, demand for assurance engagements that enhance the degree of confidence of the intended users of sustainability/ESG reporting is growing. [Here](#) is how the IAASB is planning to respond to this demand.
5. In December 2021, The Technology Working Group of the IAASB released [non-authoritative support material](#) to help auditors understand how to plan an audit under International Standard on Auditing (ISA) 300, *Planning an Audit of Financial Statements*, when using automated tools and techniques (ATT).
6. As is widely recognised, auditing standards have evolved to mirror an increasingly complex business world, and yet there remain many businesses and other organisations that arguably do not require such a detailed examination. But, as Seidenstein is keen to point out, this is not about lowering the quality of audit for less complex businesses; it is about auditing in a smarter way. *Read the full article on the AB Magazine website: [Pushing for Smarter Auditing](#)*

International Ethics Standards Board for Accountants (IESBA)

1. The IESBA ended 2021 with a successful hybrid meeting, hosting participants in person in New York on November 30- December 3, and virtually on December 8 and 16. During the meetings, the IESBA unanimously approved: The new pronouncements will be issued shortly after the Public Interest Oversight Board's approval in April 2022. The IESBA also approved two sets of proposed revisions to the Code (i.e., Technology and Engagement Team - Group Audits Independence). The Exposure Drafts will be issued by the end of January 2022.
2. The IESBA received the final report related to the Phase 1 Long Association Post Implementation Review and agreed with the Working Group's recommendation that no action be taken to extend or otherwise vary the "jurisdictional provisions."

Accountancy Europe (AE) (former FEE)

1. The European Commission (EC) adopted [a proposal for the Corporate Sustainability Reporting Directive](#) (CSRD) to strengthen sustainability reporting. This is fundamental to achieve a sustainable economy. It requires companies to report more comparable, targeted, reliable as well as easily accessible information as the basis for sustainable decision-making. The EC also introduces an EU-wide requirement for **limited assurance on sustainability information** (see amendments proposed to Article 34). According to the EC proposal, independent external assurance enhances the reported sustainability information's credibility. This helps meet the growing demands for reliable information on sustainability matters. [This FAQ](#) provides answers to recurring questions on sustainability information assurance, specifically on:
 - limited and reasonable assurance engagements
 - assurance requirements and the EU regulatory framework
 - technical aspects of professional assurance standardsThe questions and answers aim to inform policymakers and other interested stakeholders about assurance on sustainability information. We are happy to continue the discussion on sustainability matters and elaborate on the topics covered

Public Interest Oversight Board of IFAC (IPIOB)

1. There have been no significant developments related to audit and assurance to report in the period.

International Sustainability Standards Board

1. The Trustees of the IFRS Foundation announced the appointment of Emmanuel Faber to serve as Chair of the International Sustainability Standards Board (ISSB), effective 1 January 2022.

International Forum of Independent Audit Regulators (IFIAR)

1. There have been no significant developments related to audit and assurance to report in the period.

International Organization of Securities Commissions (IOSCO)

1. There have been no significant developments related to audit and assurance to report in the period.

Australia

The Australian Auditing and Assurance Standards Board (AUASB)

1. The AUASB has released a new Guidance Statement [GS 023 Special Considerations - Public Sector Engagements \(GS 023\)](#), which provides supplementary application and other explanatory material in relation to issues that at times present challenges applying certain AUASB Standards on public sector audit and assurance engagements. Like all AUASB Guidance Statements, GS 023 is to be read and applied together with relevant AUASB Standard(s).
2. The AUASB in its December meeting:
 - The AUASB received an update on Audit Quality matters being performed in conjunction with the Financial Reporting Council (FRC). The AUASB provided input into and agreed to issue the AUASB Bulletin Supporting Auditors in Enhancing Audit Quality in order to communicate actions taken by the AUASB to assist auditors to improve audit quality, including those in response to matters identified during recent ASIC audit inspections. The AUASB also provided input into a media release in response to the release of ASIC's Audit Inspection Report 1 July 2020 to 30 June 2021.
 - The AUASB considered and provided feedback on the proposed new AUASB Guidance Statement GS 023 Special Considerations – Public Sector Engagements which will provide supplementary application and other explanatory material to support public sector auditors and assurance practitioners in implementing and applying AUASB Standards in the public sector. An updated final document will be shared with the AUASB for out-of-session review and approval to issue later in December 2021.
 - The AUASB were provided high-level feedback from the various outreach activities undertaken on the Consultation Paper Exposure of the IAASB's Auditing of Financial Statements of Less Complex Entities (ISA for LCE); and Consideration of Possible alternative options for Australian LCE audits. The AUASB also provided comments which will be incorporated into the submission to the IAASB in late January 2022.

United Kingdom

FRC

1. Independent research commissioned by the Financial Reporting Council which builds on similar research in 2020, reinforces the case for developing standards for Audit Committees to help promote a more consistent approach to audit quality. The research, conducted by YouGov, was based on in-depth interviews with Audit Committee Chairs (ACCs) discussing how they carry out their role. Among the ACCs interviewed there were a range of different views expressed on audit quality. Some ACCs continue to find it difficult to differentiate audit quality from the quality of service provided by their audit firm. In common with last year's findings there were also relatively few indications of regular challenge by ACCs of audited companies' senior management.

Nevertheless, the ACCs interviewed take audit quality very seriously. They are particularly alert to quality during the auditor tendering process, with mandatory tendering being seen as an opportunity to encourage innovation by prospective auditors.

The research also found that auditors have adapted quickly to the challenges posed by the pandemic. There are emerging signs that the move to remote working has been accompanied by a shift in the relationship between the ACC and the lead audit partner, such that it has become more formal, and interactions have become more structured. A link to the full research can be found [here](#).

Institute of Chartered Accountants in England and Wales

1. There have been no significant developments related to audit and assurance to report in the period.

Association of Chartered Certified Accountants (ACCA)

1. There have been no significant developments related to audit and assurance to report in the period.

United States of America

Public Company Accounting Oversight Board (PCAOB)

1. In 2020, the Public Company Accounting Oversight Board (PCAOB or “the Board”) inspected 153 audit firms, reviewing portions of 617 audits that generally had financial years ended during 2019 and the first half of 2020. [This Spotlight](#) presents our aggregate observations, which we share as a preview of the inspection reports that we will publish for individual audit firms.
2. The PCAOB issued [staff guidance](#) Thursday on things for auditors to consider regarding the relevance and reliability of information from external sources that the auditor plans to use as audit evidence.
In addition, the guidance addresses the relationship between the quality and quantity of audit evidence.

American Institute of Certified Public Accountants (AICPA)

1. Environmental, social, and governance (ESG) has become an area of increasing focus. The demand by investors, regulators, and other users (stakeholders) for information about the effects of ESG-related matters on entities and their financial reporting has grown dramatically. Although ESG can encompass a wide range of matters that may have the potential to affect an entity’s financial statements, Chapter 1 of Consideration of ESG-Related Matters in an Audit of Financial Statements focuses on the effects of climate-related matters.(down the guide [here](#))
2. The AICPA issued an “accounting for and auditing of Digital Assets practice aid “ (not freely available).

Center for Audit Quality (CAQ) - (affiliated with AICPA)

1. The CAQ and Deloitte’s Center for Board Effectiveness released a new report, [Audit Committee Practices Report: Common Threads Across Audit Committees](#), a survey of 246 audit committee members of primarily large-cap, public companies in the U.S. The report provides an illuminating snapshot about how audit committee oversight is changing. In particular, the report shows that while nearly all respondents (96%) rank financial reporting and internal controls — including fraud risk – as their top priority, audit committees are also responsible for cybersecurity (53%), data privacy security (48%), ethics and compliance (48%), third-party risk (47%) and enterprise risk management (42%).
Audit committees are increasingly adding cybersecurity expertise, according to the survey. More than one-half (53%) of respondents said they have oversight responsibility for cybersecurity while 69% anticipate spending more time on cybersecurity next year – more than any other area. At the same time, 35% of respondents reported their audit committee has a cybersecurity expert, with 41% acknowledging they needed additional expertise in this area.
The survey also demonstrates that audit quality among public companies remains high – 98% of respondent stated audit quality either increased or remained the same as the previous year – and

that competence of the engagement team and strong communication between the engagement partner and the audit committee contribute most to audit quality.

Canada

Canadian Auditing and Assurance Standards Board (AASB)

1. The AASB issued this [FAQ](#) on EER.
2. The Independent Review Committee on Standard Setting in Canada purpose is to conduct a review of the governance and structure for establishing Canadian accounting, auditing, and assurance standards, and to identify what might be needed for the future – including sustainability standards.

An integral part of the Committee's review process is consulting with individuals and organizations on its Consultation Paper, which explores key matters such as:

- overall governance and oversight framework of the Canadian standard-setting system, including its legal structure and funding mechanisms;
- public interest and responsibilities to Indigenous peoples in the development of standards;
- timeliness and responsiveness of the current accounting, auditing, and assurance standard-setting processes; and
- establishing a [Canadian Sustainability Standards Board](#), with consideration of its governance and accountability framework.

[Download Now](#)

CPA Canada

1. CPA Canada issued a [guide to help practitioners to better scope and structure Compliance Assurance engagement](#).

Project	Overview of the project and its current status
<p>Group Audits—ISA 600</p> <p>Has update for the period</p>	<p>Objective of the project: Determining the nature of the IAASB’s response to issues that have been identified, relating to Group Audits, from the ISA Implementation Monitoring project and outreach activities, inspection reports from audit regulators, discussion with NSS and responses to the IAASB’s Work Plan consultation (i.e., whether standard-setting activities are appropriate to address the issues, and if so, whether specific enhancements within ISA 600 or a more holistic approach to the standard would be more appropriate).</p> <p>Background and current status: The IAASB commenced work on one aspect of this project relating to the responsibilities of the engagement partner in circumstances where the engagement partner is not located where the majority of the audit work is performed in December 2014. A Staff Audit Practice Alert on this aspect was published in August 2015. Information gathering on the broader aspects of group audits commenced in March 2015.</p> <p>The issues identified and discussed at the IAASB meetings form part of a combined Invitation to Comment on Enhancing Audit Quality in the public interest which was issued in December 2015 and is open for comments till May 16, 2016. The ITC is now closed. From May to September 2016, the various Working Groups analysed the comment letters to the Overview and detailed ITC, reviewed feedback from outreach activities, presented the results to IAASB at the September 2016 IAASB meeting.</p> <p>In its June 2017 meeting, the IAASB received an update on the activities of the GATF. The IAASB supported the proposal of the GATF to engage more directly with the QCTF, ISA 220 TF and ISA 315 (Revised)³ TF, to help ensure that the requirements in those standards provide appropriate connection points between those projects and ISA 600.⁴ The IAASB also supported the proposal of the GATF to publish a short project update and asked the GATF to consider topics that are related to standards not under revision, for example, materiality and audit evidence.</p> <p>In December 2017, the Board received a presentation about the interconnections between ISA 600 and other ongoing projects, and how the Task Force is monitoring the activities of the other task forces, providing input and considering implications of changes in the other standards on ISA 600.</p> <p>In March 2019, the Board was updated on the work performed by the Group Audit Task Force since the start of the project to revise ISA 600¹ and was asked for its views on issues related to scoping a group audit, the definitions, and the linkages with other ISAs. The Board continued to support developing a risk-based approach for scoping a group audit and generally supported the Group Audit Task Force’s approach on the definitions and the issues that were presented in relation to the responsibilities of the group engagement partner, acceptance and continuance, understanding the group and its components, understanding the component auditor, identifying and assessing the risks of</p>

¹ International Standard on Auditing (ISA) 600, *Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors)*

	<p>material misstatement and responding to assessed risks, the consolidation process, communication between the group auditor and component auditors, and evaluating the audit evidence obtained. These and other issues need to be further developed in the context of the risk-based approach and changes made to other of the IAASB's International Standards. The Group Audit Task Force will continue to work on the issues related to scoping a group audit, the definitions and other issues identified in the Invitation to Comment, and will present it for further discussion at the June 2019 IAASB meeting.</p> <p>In June 2019, the Board was updated on the ISA 6003 Task Force's progress since the March 2019 meeting and discussed the public interest issues that the ISA 600 Task Force identified, the ISA 600 Task Force's proposals with respect to the risk-based approach to scoping a group audit, and the special considerations related to auditing a group. The Board also discussed indicative drafting related to the risk-based approach to scoping a group audit and the special considerations related to proposed ISA 220 (Revised).⁴ Generally, the Board was supportive of the approach taken but had suggestions on the way forward and the indicative drafting. The ISA 600 Task Force will take these comments into account and will present further drafting at the September 2019 meeting. The ISA 600 Task Force will also continue its outreach to key stakeholders and coordinate with IESBA and other IAASB Task Forces as needed.</p> <p>In September 2019, the Board was updated on the work of the ISA 600 Task Force since the June 2019 meeting, including the outreach performed and the feedback received from the IAASB's Consultative Advisory Group. The Board discussed, among other matters, the updated public interest issues, a draft of a significant part of the standard and the ISA 600 Task Force's proposals with respect to the scope and structure of the standard, materiality considerations in a group audit and a proposed stand-back requirement. The ISA 600 Task Force will take these comments into account in preparing revised drafting and issues for discussion at the December 2019 IAASB meeting.</p> <p>In December 2019, the Board was updated on the work of the ISA 600 Task Force since the September 2019 meeting, including the outreach performed, and discussed a full draft of the proposed revised standard (except the appendices). The draft of proposed ISA 600 (Revised)¹ included updated requirements and application material on sections that were presented to the Board in September 2019 and new requirements and application material on, among other matters, materiality, communications with component auditors and documentation.</p> <p>The ISA 600 Task Force will take the Board's comments on the proposed revised standard into account and will present an updated version for approval for public exposure at its March 2020 meeting. The Task Force will discuss the conforming amendments and the appendices to proposed ISA 600 (Revised) in the January 23, 2020 Board teleconference.</p> <p>In March 2020, after making amendments in response to the IAASB's comments received during the meeting, the IAASB approved the Exposure</p>
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	<p>Draft (ED) of proposed ISA 600 (Revised)¹ and related conforming and consequential amendments for public exposure with 18 affirmative votes out of the 18 IAASB members present. The ED will be issued in mid-April with a comment period of 120 days.</p> <p>In finalizing the ED, the IAASB continued to discuss whether it is sufficiently clear how the standard described the involvement of component auditors. On balance, the IAASB was satisfied that the draft sets out acceptable proposals on all significant areas for this project and that it is appropriate to proceed to seek stakeholder views whether the proposals could be effectively implemented.</p> <p>The IAASB also discussed possible matters to be addressed in the explanatory memorandum that will accompany the ED.</p> <p>In December 2020, the Board discussed respondents' comments on the Exposure Draft of proposed ISA 600 (Revised) (ED-600)² related to the scope and applicability of the proposed standard, the definition of component, the definition of engagement team, and the risk-based approach including the involvement of component auditors, as well as the ISA 600 Task Force's initial views and recommendations on the way forward. In addition, the Board received a high-level overview of respondents' comments related to other areas in ED-600. The ISA 600 Task Force will present issues related to this project at the March 2021 IAASB meeting.</p> <p>In March 2021, The Board discussed proposed changes based on respondents' comments on the Exposure Draft of proposed ISA 600 (Revised) (ED-600)¹ and the Board's discussion in December 2020. In addition, the Board discussed respondents' comments on ED-600 related to materiality and documentation, as well as the ISA 600 Task Force's views and recommendations on the way forward. The ISA 600 Task Force will continue to address respondents' comments on ED-600, and progress changes to proposed ISA 600 (Revised) as appropriate. The Task Force will present further proposed changes at the June 2021 IAASB meeting.</p> <p>In June 2021, The Board discussed a near complete draft of proposed ISA 600 (Revised) that reflects changes based on respondents' comments on the Exposure Draft of Proposed ISA 600 (Revised) (ED-600) and the Board's discussion in March 2021. In addition, the Board discussed the ISA 600 Task Force's analysis of respondents' comments related to several remaining questions in the Explanatory Memorandum to ED-600. The ISA 600 Task Force will continue to update the drafting of proposed ISA 600 (Revised) and will presents its work at the September 2021 IAASB meeting.</p> <p>In September 2021, the Board discussed the draft of proposed ISA 600 (Revised)¹ that reflects changes based on the Board's discussion in June 2021. In addition, the Board discussed the ISA 600 Task Force's analysis of respondents' comments related to the last remaining questions in the Explanatory Memorandum on the Exposure Draft of Proposed ISA 600 (Revised), including the question related to the effective date of proposed ISA 600 (Revised). The ISA 600 Task Force will update the drafting of proposed</p>
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	<p>ISA 600 (Revised) and will presents its work, for approval, at the December 2021 IAASB meeting.</p> <p>Update for the period</p> <p>In December 2021 meeting, the Board unanimously approved ISA 600 (Revised) as a final standard. The Board will formally release the standard after confirmation is received from the Public Interest Oversight Board (PIOB) that due process was followed. The revised standard will be effective for periods beginning on or after December 15, 2023. In finalizing the standard, the Board considered the enhancements suggested by the ISA 600 Task Force and provided several suggestions to further clarify the standard. The Board also suggested a number of areas that should be emphasized in the Basis for Conclusions or implementation support material.</p>
<p>Professional Scepticism</p> <p>No Update for the period</p>	<p>Objective of the project: To make recommendations on how to more effectively respond to issues related to professional scepticism.</p> <p>Background and current status: The IAASB commenced its initial information gathering on the topic of professional scepticism in June 2015. The issues identified and discussed at the IAASB meetings are part of the Invitation to Comment on Enhancing Audit Quality in the Public Interest which was issued in December 2015 and is open for comments till May 16, 2016.</p> <p>The working group is comprised of representatives from the IAASB, the International Ethics Standards Board for Accountants (IESBA), and the International Accounting Education Standards Board (IAESB) to explore the topic of professional scepticism, enabling the three independent standard-setting Boards to consider what actions may be appropriate within their collective Standards and other potential outputs to enhance professional scepticism.</p> <p>Together with the Quality Control and ISA 600-Group Audits project, this project is part of the Audit Quality Enhancements Coordination Group (AQECG). The AQECG intends to coordinate the various inputs to the invitation to comment developed at the individual working group level, and take a holistic approach as to how the matters are presented in one invitation to comment. From May to September 2016, the various Working Groups analysed the comment letters to the Overview and detailed ITC, reviewed feedback from outreach activities, presented the results to IAASB at the September 2016 IAASB meeting.</p> <p>Subsequent to the December 2016 IAASB meeting, the joint PSWG held a teleconference to discuss matters related to potential changes to the concept/definition of professional scepticism in the ISAs. The March meeting papers are available here.</p> <p>In June 2017 meeting, the IAASB received an update on the activities of the Professional Skepticism Working Group (PSWG) and the Professional Skepticism IAASB Subgroup since the last Board meeting in March 2017. The Board supported the release of a communication to update stakeholders about the actions and current status of the PSWG’s work. The Board also discussed the concept of “levels” of professional skepticism and supported the</p>

	<p>recommendations of the Professional Skepticism IAASB Subgroup not to introduce the concept into the ISAs.</p> <p>The IAASB discussed the Professional Skepticism Subgroup’s analysis and related conclusions regarding different “mindset” concepts of professional skepticism and the use of the words in the ISAs in its December 2017. The Board supported the conclusions of the Subgroup, including that the current concept of the attitude of professional skepticism involving a “questioning mind” continues to be appropriate and should be retained within the ISAs. The IAASB Professional Skepticism Subgroup will liaise as needed with the Professional Skepticism Joint Working Group.</p> <p>In September 2018 meeting, The Board received an update on the activities of the IAASB’s Professional Skepticism Subgroup (Subgroup) since March 2018. The Chair of the Subgroup also presented the Board with a draft publication that seeks to highlight the IAASB’s efforts to appropriately reflect professional scepticism into the IAASB standards as well as other relevant news and information on professional skepticism, including collaboration with the International Ethics Standards Board for Accountants (IESBA) and International Accounting Education Standards Board (IAESB). The Board supported the issuance of the publication and future publications of this nature.</p>
<p>LCE</p> <p>No Update for the period</p>	<p>In March 2019 the Board discussed a proposed Discussion Paper (DP), <i>Audits of Less Complex Entities: Exploring Possible Options to Address the Challenges in Implementing the ISAs</i>. The discussion highlighted the shift in focus on complexity of the entity rather than its size in driving the ongoing discussions and activities to address issues and challenges in audits of less complex entities (LCEs). The Board was supportive of the DP’s overall direction, noting the importance of the project and the need for action by the IAASB and others.</p> <p>The Board liked the simple, clear way the DP had been presented and noted it was appropriate for its key target audience (i.e., auditors of LCEs). The Board made suggestions for improvements, particularly with respect to the issues and challenges, the possible actions presented within the DP and the questions to be posed to respondents in order to obtain relevant and useful feedback. Proposed changes to the DP will be presented in a Board call on April 10th, with the final DP targeted to be published for public consultation before the end of April 2019.</p> <p>The Board discussed the feedback received to date related to audits of less complex entities, including from the Discussion Paper (DP), <i>Audits of Less Complex Entities (LCEs): Exploring Possible Options to Address the Challenges in Applying the ISAs</i>, and other related outreach. The key messages received from the feedback highlighted the strong support for the IAASB’s work in this area, as well as the need for a timely and global solution. The Board asked the LCE Working Group to continue to analyze the feedback from stakeholders to help determine the most appropriate way forward, and it was agreed that further information gathering activities would continue until June 2020, at which time it is anticipated that a decision about the way forward will be made. As part of the</p>

	<p>proposal for work in this area, the IAASB had agreed that it was important to keep stakeholders informed of its progress in relation to its work on audits of LCEs. Accordingly, the Board agreed to publish a Feedback Statement in December 2019 detailing what the IAASB had heard from its consultation and related outreach.</p> <p>In June 2020, the Board discussed the LCE Working Group's recommendations for developing a separate standard for Audits of Less Complex Entities (LCEs) on the basis of overarching principles outlining how the separate standard could be developed.</p> <p>Notwithstanding the support for some of the overarching principles outlined, the Board requested the LCE Working Group to further consider how the separate standard could be developed so that it is standalone, while also clarifying the linkage back to the ISAs as appropriate. In doing so, the Board also encouraged further consideration of materials to help apply the separate standard, either within the standard (as application material) or outside as support materials. The Board highlighted the importance of the description of an LCE to help in developing the content of the separate standard. The Board encouraged a more prescriptive definition for the application of the standard, although the Board recognized there would always be a level of judgment in making this determination. On this basis, the Board supported that the LCE Working Group commence development of the separate standard as well as prepare a project proposal for approval at the December 2020 IAASB meeting.</p> <p>In December 2020, the Board discussed and approved a project proposal for the development of a separate standard for audits of financial statements of LCEs and discussed targeted matters related to the initial working draft of the standard. In addition to the broad support for excluding listed entities from the scope of the audit standard for LCEs and for the flow and structure of the standard, the Board provided further inputs on various considerations related to the applicability of the standard and other key aspects relevant to further progressing the development of the standard. The Board recognized the significant outreach undertaken to date by the LCE Working Group, including with the LCE Reference Group, and encouraged this interaction to continue as the development of the audit standard for LCEs progresses to ensure that the proposals developed are usable and meet stakeholder expectations. The LCE Task Force will continue its development work and present a revised draft of the proposed audit standard for LCEs to the IAASB for discussion at the March 2021 IAASB meeting.</p> <p>In March 2021, the Board discussed the full draft of the separate standard for audits of financial statements of less complex entities. Significant concerns were expressed about the applicability of the separate standard as it had been presented, and it was agreed that this needed to be further considered. There were mixed views expressed about whether the standard should be issued as an exposure draft after the June 2021 IAASB meeting, however some Board members strongly emphasized the need for consultation on the standard to</p>
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	<p>obtain views of the IAASB's stakeholders about whether the standard could and would be used. Further discussions about the name and detailed content of the standard indicated that there are mixed views about some of the matters presented in the draft, which would require further consideration by the LCE Task Force. The LCE Task Force will continue to progress the draft with the intent to consult on the draft after the June 2021 IAASB meeting.</p> <p>In June 2021, the IAASB approved an exposure draft of its new standard on auditing the financial statements of less complex entities. The Board agreed that consultation is needed on the draft new standard, including its scope and content, and intends to undertake rigorous outreach to obtain input of those for whom the standard is intended. The standard is intended to be a standalone standard and is based on similar concepts to the ISAs, i.e., the requirements are principles-based with the objective of obtaining sufficient appropriate audit evidence to support a reasonable assurance opinion. The draft standard will be published for consultation in late July and the comment period will be open until the end of January 2022. It is also intended that the exposure draft and its supporting documents will be published in Spanish and French.</p>
<p>Audit Evidence</p> <p>No Update for the period</p>	<p>The Board discussed the analysis undertaken by the Audit Evidence Working Group of the issues across the ISAs related to audit evidence and the use of technology more broadly, and the possible actions to address the issues. The Board concurred that guidance should be developed on the effect of technology when applying certain aspects of the ISAs, and that this should be actioned expeditiously.</p> <p>The Board also indicated that more extensive information gathering and research need to be undertaken to understand the issues related to audit evidence, so that the Board is fully informed of the issues in determining the need for revisions to ISA 5005 and possibly other related standards.</p> <p>In September 2019, the Board was provided with an overview of the development of the Audit Evidence Workstream Plan. The Audit Evidence Working Group will accordingly undertake further information gathering and research, and develop recommendations for possible further actions to be presented to the Board in the first half of 2020.</p> <p>In June 2020, the Board discussed the outcome of the Audit Evidence Working Group's information gathering and targeted outreach activities. Based on the feedback, the Board agreed with the Audit Evidence Working Group's conclusion that the listing of audit evidence related issues, as presented, is appropriate. The Board supported the Audit Evidence Working Group's recommendation to develop a project proposal to revise ISA 500,5 including conforming and consequential amendments to other standards, for approval at the December 2020 IAASB meeting, and to continue in the interim to evolve its approach, as presented, to progress the revision of ISA 500 (and conforming and consequential amendments to other standards). The Board also</p>

	<p>recommended that the Working Group publish a project update to inform stakeholders about the activities undertaken to date.</p> <p>The Board discussed and approved a project proposal to revise ISA 500,1 including conforming and consequential amendments to other standards. In addition, the Board provided direction on the initial views of the Audit Evidence Task Force on key issues to progress the revision of the standard, including: the purpose and scope of the standard, the concept and evaluation of sufficient appropriate audit evidence, the distinction between sources of information in ISA 500 and the use of information for different types of audit procedures. The Audit Evidence Task Force will present issues related to this project at the March 2021 IAASB meeting.</p> <p>In March 2021, the Board provided direction on the initial proposals of the Audit Evidence Task Force (AETF) on the definition of audit evidence and the meaning of audit procedures. The Board also discussed the meaning of sufficient appropriate audit evidence, including the factors the auditor would think about when considering whether sufficient appropriate audit evidence has been obtained. The Board considered the AETF’s further proposals to incorporate a principles-based approach in considering the relevance and reliability of information intended to be used as audit evidence. The AETF will present further proposals on these issues and other issues related to this project at the June 2021 IAASB meeting.</p> <p>In Its June 2021 meeting, the IAASB approved an exposure draft of its new standard on auditing the financial statements of less complex entities. The Board agreed that consultation is needed on the draft new standard, including its scope and content, and intends to undertake rigorous outreach to obtain input of those for whom the standard is intended. The standard is intended to be a standalone standard and is based on similar concepts to the ISAs, i.e., the requirements are principles-based with the objective of obtaining sufficient appropriate audit evidence to support a reasonable assurance opinion. The draft standard will be published for consultation in late July and the comment period will be open until the end of January 2022. It is also intended that the exposure draft and its supporting documents will be published in Spanish and French.</p>
<p>Fraud</p> <p>Has update for the period</p>	<p>The IAASB received an update on the information gathering activities in relation to fraud in an audit of financial statements. In particular, it was highlighted that outreach was being undertaken with investor groups to further understand their views. The Board also discussed various specific matters related to the auditor’s efforts with regard to fraud within the ISAs and provided views on possible ways that the issues and challenges could be addressed. The Fraud Working Group will continue to gather information to further inform the Board’s efforts in relation to fraud in an audit of financial statements, including consideration of the</p>

	<p>responses to the IAASB Discussion Paper that is out on consultation until February 1, 2021.</p> <p>In April 2021, the IAASB considered the analysis of feedback received from its constituents regarding the Fraud Discussion paper.</p> <p>That analysis is summarised here.</p> <p>In June 2021, the Fraud Working Group presented possible actions forward for six specific topics raised by respondents to the discussion paper where mixed responses were received or where emerging issues have been observed in the current environment. The Board provided comments for the Fraud Working Group to consider as it develops a project proposal and, if the project proposal is approved, as it further explores the topics discussed. At the July 2021 IAASB meeting, the Fraud Working Group will present possible actions for four remaining topics where mixed responses to the discussion paper were received. The Working Group will also seek to obtain Board feedback on possible project objectives, project scope and public interest issues to inform the development of a project proposal to be presented at the September 2021 IAASB meeting.</p> <p>Update for the period</p> <p>The Board discussed and approved a project proposal for the revision of ISA 2402 and the conforming and consequential amendments to other relevant ISAs. In the project proposal, the IAASB recognized the importance of the role of its standards in the financial reporting ecosystem. Therefore, the project will be focused on specific standard-setting actions aimed at enabling consistent and improved auditor behavior. Specifically, the project will seek to clarify the auditor's responsibilities and enhance the robustness of the required auditor's procedures and reporting on fraud in an audit of financial statements. The Fraud Task Force intends to discuss and bring to the Board for their input at the March 2022 IAASB meeting specific proposed actions included in the scope of the project on fraud addressing key issues identified regarding the role and responsibilities of the auditor, risk identification and assessment, and transparency.</p>
<p>Listed Entities and Public Interest Entities (PIEs)</p> <p>No Update for the period</p>	<p>At its July 2021 meeting, the IAASB considered respondents' feedback to the IESBA's Exposure Draft, Proposed Revisions to the Definitions of Listed Entity and Public Interest Entity in the Code (PIE ED) and discussed the PIE Working Group initial views on the matters for IAASB's consideration. At the October 2021 meeting, the IAASB will discuss any matters of coordination in relation to IESBA's project. The Board will also discuss the objectives, scope and public interest issues for a possible narrow-scope amendments project to be undertaken by the IAASB on this topic.</p>

ISA 540 (Revised) implementation support	
Technology No update for the period	<p>In August 2019, the Technology Workstream Plan was established to set out the process for identifying, developing and issuing non-authoritative guidance that address the effects of technology when applying certain aspects of the ISAs. The Technology Working Group is working to complete the matters set out on the Technology Workstream plan.</p>
Complexity Understandability Scalability Proportionality (CUSP) (No update for the period)	<p>At the April 2021 meeting, the IAASB discussed the Drafting Principles and Guidelines, which are designed to address complexity, understandability, scalability and proportionality (CUSP) in the ISAs. The Board strongly supported the Drafting Principles and Guidelines and noted that they will be useful in enhancing the consistency of future International Standards on Auditing (ISAs).</p> <p>The CUSP Working Group is currently undertaking outreach with stakeholders to gather feedback on the Drafting Principles and Guidelines and we would like to invite you to complete a short survey. By answering these few questions, you will be contributing valuable information towards supporting the IAASB in finalizing its Drafting Principles and Guidelines.</p>
Going Concern (no update for the period)	<p>This project is currently in the information gathering and research phase, which will be used to inform future IAASB decisions about its activities relating to going concern in an audit of financial statements.</p>

NZAuASB Board Meeting Summary Paper

AGENDA ITEM NO. 8.2

Meeting date: 9 February 2022

Subject: Domestic Update

Date: 27 January 2022

Prepared By: Peyman Momenan

 Action Required **For Information Purposes Only**

Introduction

1. This Update summarises the significant news from Financial Market Authority, New Zealand Institute of Chartered Accountants and other organisations for the Board's information, for December 2021 and January 2022.

The Financial Market Authority (FMA)

1. The Financial Markets Authority (FMA) - Te Mana Tātai Hokohoko - has today published its annual report for the year to June 2021.
<https://www.fma.govt.nz/news-and-resources/media-releases/2021-annual-report/>
2. The Reserve Bank of New Zealand – Te Pūtea Matua and the Financial Markets Authority (FMA) - Te Mana Tātai Hokohoko have released their finalised framework for assessing the systemic importance of Financial Market Infrastructures (FMIs) following consultation with industry and stakeholders.
FMIs are a set of critical systems that are sometimes referred to as the plumbing of the financial system which allow electronic payments and financial market transactions to occur. The Reserve Bank and the FMA are the joint regulator of FMIs under the Financial Market Infrastructure Act. (read more [here](#))

The Chartered Accountants Australia and New Zealand

1. CA ANZ launches a major research report on AI, ethics and ESG. [The report](#) is based on a survey of more than 5700 members and business leaders and proposes an ethical and sustainable approach to AI adoption.
Among the findings, the research shows that 28% of respondents are currently using AI without having implemented an ethical framework for it within their organisation.
There is a temptation for quick AI adoption and rapid wins, but the best adoption of AI is a measured ethical and sustainable approach. The business case must consider long-term trends rather than seeking the latest tool simply for fear of missing out.
AI is one of the most exciting, transformational technological developments of our time, but technology has the potential both to improve lives and to cause harm.
Ultimately, it is the ethical and sustainable adoption of AI that will determine its relevance and usability.

CPA Australia

The [EY Global Climate Risk Disclosure Barometer](#) shows that there is now extensive reporting under TCFD globally, but quality is lagging. There is a need for assurance to enhance the quality of climate-related reporting.

The International Federation of Accountants' benchmarking report, [The State of Play in Sustainability Assurance](#), has found that 91 per cent of the 1400 companies examined globally – the largest companies in 22 jurisdictions – are reporting on sustainability.

However, only 51 per cent of these companies have obtained assurance over their sustainability disclosures, the majority provided by audit-affiliated firms using the auditing and assurance standards issued by the [International Auditing and Assurance Standards Board](#) or national equivalent.

The lag between reporting and assurance is understandable, as robust reporting needs to be in place before effective assurance is possible.

There is a significant amount of work in establishing systems, processes and controls in order for an entity to be ready for assurance on ESG reports.

Nevertheless, external assurance will be increasingly needed to provide credibility and trust in ESG reports, as well as confidence that reporting is not “greenwashing”, but instead an accurate reflection of the reality of the entity’s activities.

As entities are gearing up for more fulsome ESG reporting, practitioners need to be building their capabilities to provide assurance on those reports.

The Institute of Directors (IoD)

1. No update.