
Date: 10 May 2022
To: NZASB Members
From: Anthony Heffernan
Subject: Disclosure of Fees Paid to Audit Firms

Introduction¹

1. The purpose of this memo is to seek Board APPROVAL to issue for public consultation through exposure drafts, proposals to enhance the requirements in domestic accounting standards concerning the disclosure of total fees incurred by the reporting entity for services provided by its audit or review firm.
2. The objective of the amendments is to improve the consistency and transparency of information provided to general purpose users concerning the total fees incurred in the reporting period for:
 - (a) the audit or review of the entity's financial statements; and
 - (b) each other type of service provided by the entity's audit or review firm.
3. In December 2021, the Board 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.
4. In December 2021, the Board also agreed to move forward and issue proposals ahead of the Australian Accounting Standards Board (AASB). This decision was based on the need to respond to calls for improved disclosure from New Zealand constituents and to ensure financial statement disclosures supported recent changes to ethical and professional standards as applied by auditors and other assurance practitioners in New Zealand.
5. The draft proposed enhanced disclosures were considered at the NZASB Meeting and Joint NZASB/NZAuASB Meeting in early April 2022.
6. Based on feedback at these standard-setter meetings, the proposed enhanced disclosures were updated in mid-April 2022 and distributed for review to Board members who had expressed a strong interest in the disclosures and to other key stakeholders.

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).

7. In response, staff received overall strong support for the updated proposed enhanced disclosures from the following key stakeholders:
 - (a) NZASB and NZAuASB members;
 - (b) AASB staff;
 - (c) Australian Professional and Ethical Standards Board (APESB) staff;
 - (d) Financial Markets Authority (FMA) Audit and Financial Reporting Team;
 - (e) Chartered Accountants Australia and New Zealand (CA ANZ) Reporting and Assurance Team; and
 - (f) other audit and assurance practitioners.
8. The key stakeholders also provided useful suggestions for further refinements to the proposed enhanced disclosure requirements.
9. The proposed amendments for Board APPROVAL at this meeting have been updated, based on the feedback from the Joint NZASB/NZAuASB Meeting and the subsequent key stakeholder review.

Recommendations

10. Staff recommend that the Board CONSIDERS this memo, provides RECOMMENDATIONS for any further refinements, and APPROVES the following draft Exposure Drafts (EDs):
 - *Disclosure of Fees Paid to Audit Firms* (Proposed amendments to FRS-44) — agenda item 5.2; and
 - *Disclosure of Fees Paid to Audit Firms* (Proposed amendments to PBE IPSAS 1) — agenda item 5.3.
11. The proposed draft amendments are provided in a clean format in this memo to support Board review and approval:
 - (a) FRS-44 *New Zealand Additional Disclosures* (Tier 1 and Tier 2 For-Profit Standard) – refer to [Appendix 1](#).
 - (b) PBE IPSAS 1 *Presentation of Financial Statements* (Tier 1 and Tier 2 PBE Standard) – refer to [Appendix 2](#).

Structure of this memo

12. The remainder of this memo is set out as follows.
 - (a) Background
 - (b) Update to proposed enhanced disclosures
 - (c) Tier 2 reduced disclosures
 - (d) Disclosure of audit tenure
 - (e) Board approval of EDs
 - (f) Next steps

Background

13. Information about the total fees paid to an entity's audit or review firm, and an understanding of the nature of the services provided by an entity's audit firm or review firm, is a disclosure of high interest to the users of the financial statements. The provision of non-audit services by an entity's audit or review firm is seen as a key indicator of possible threats to auditor independence.
14. The proposed amendments to the accounting standards intend to provide improved information to the users of general purpose financial reports, to allow them to assess the extent to which non-audit services have been provided by an entity's audit or review firm.
15. The discussion of audit fee disclosure in financial statements needs to be considered in the context of recent changes to professional and ethical standards as applied by audit and assurance practitioners, and calls by regulators to enhance the quality of disclosures due to actual or perceived concerns about auditor independence.

Financial Markets Authority

16. The Financial Markets Authority (FMA) has previously highlighted concerns about the inadequacy of and inconsistencies in financial statement disclosures about fees charged by audit or review firms for services performed.
17. The FMA's [Audit quality – a director's guide](#), updated November 2020, provides useful insights into the director's responsibilities to consider auditor independence and the investor's interest in this disclosure.

“The standard for auditor independence is built on the principle of viewing independence through the eyes of an objective, reasonable, and informed third parties. Globally, investors’ expectations of independence have changed in recent years. Directors should consider whether investors or other users of the financial statements are comfortable with the auditor providing non-assurance services.”

IESBA developments

18. We also note that calls to improve disclosure requirements concerning fees paid to audit and review firms come at a time of significant public debate about audit quality in New Zealand and around the world. Questions concerning audit quality include concerns arising from perceived or actual independence threats that can arise from non-audit services being provided by the audit or review firm to their clients.
19. To reinforce and strengthen auditor independence, the International Ethics Standards Board for Accountants (IESBA) has issued new provisions relating to the performance of non-assurance services (NAS) by audit firms to their clients. These provisions relate to the obligations of auditors and other assurance practitioners when applying the International Code of Ethics.

20. Key elements of the revised IESBA NAS provisions include:
- A far-reaching prohibition on the provision of a NAS that might create a self-review threat to an audit client that is a public interest entity (PIE).
 - Stricter prohibitions on certain types of NAS to audit clients.
 - Elimination of materiality as a factor in determining NAS permissibility of PIE audit clients.
 - New provisions to enable more robust engagement between firms and those charged with governance of PIE audit clients about independence matters relating to NAS.
 - Communication of fee-related information to those charged with governance and to the public to assist their judgements about auditor independence.
21. The revisions to the fee-related provisions of the Code include a discussion on public disclosure of fee related information. The Code recognises that *“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.”*

NZAuASB developments

22. In 2021 the NZAuASB surveyed users of financial statements about their perceptions of auditor independence — specifically, the extent to which the provision of additional services by an audit firm to their client, affects the trust in the audit report. Based on the feedback received, the NZAuASB agreed to adopt the IESBA’s revisions, but with strengthened provisions to meet New Zealand-specific user expectations.
23. The New Zealand-specific amendments were exposed for comment in July 2021 ([NZAuASB ED 2021/4 Amendments to Professional and Ethical Standard 1: Non-Assurance Services](#)) and included proposals to:
- prohibit tax advisory and tax planning services to an audit client that is a Public Interest Entity (PIE), including advising an audit client in its tax return preparation or any adjustments arising therefrom;
 - outline additional factors that are relevant in identifying self-review or advocacy threats created by providing tax advisory and tax planning services; and
 - acknowledge that there may be benefits to the auditor performing certain audit-related services, the provision of which will generally not create a self-review threat to independence and provide examples of such services.
24. NZAuASB analysis of submissions to ED 2021/4 identified strongly divergent views on the proposed New Zealand specific amendments. The NZAuASB has therefore decided not to progress with ED 2021/4 and instead follow the IESBA provisions and add two New Zealand specific paragraphs that will:
- clarify the intent of the international standard in the New Zealand context; and
 - require documentation of the judgements involved.

25. The NZAuASB aims to approve a final pronouncement on NAS provisions in PES 1 *Professional and Ethical Standard* in June 2022.
26. In support of the planned amendments to PES 1, as applied by auditors and assurance practitioners in New Zealand, the NZAuASB continues to support and encourage the introduction of enhanced disclosure requirements of the total fees paid to audit and review firms in the general purpose financial statements – through amendments to the accounting standards.

AASB developments

27. As previously discussed with the Board, the Australian Accounting Standards Board (AASB) is working on proposals to require *auditor remuneration* disclosures that intend to achieve the same outcomes as the amendments discussed in this memo.
28. The AASB project is currently in a holding position while the AASB waits for a Federal Government response to the recommendations made by the Australian Parliamentary Joint Committee (PJC) report, *Regulation of Auditing in Australia* (November 2020).

Table 1 PJC auditor remuneration recommendations

Recommendation 3 Disclose auditor remuneration
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: <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.
Recommendation 6 Disclose auditor tenure
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.
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.

29. The AASB work on this topic will be informed by the [AASB Research Report 15 Review of Auditor Remuneration Disclosure Requirements](#) (December 2020). The next step in the AASB project is the issuance of an ED, but no expected issuance date has yet been set.
30. We intend to continue working closely with the AASB on this project and to seek harmonisation. However, the Board in December 2021 agreed to move ahead and develop proposed amendments to disclosures on fees paid to audit firms ahead of the AASB pronouncement on this topic.

APESB developments

31. In May 2021 the Australian Professional Ethical Standards Board (APESB) issued ED 03/21 [Proposed revisions to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants](#).²
32. The APESB ED 03/21 included amendments to the Code to support the consistent reporting of information about the different categories of services that may be provided by an auditor.
33. The recommended auditor remuneration categories proposed by the APESB were aligned with AASB Research Report 15.

Table 2 AASB and APESB recommended audit firm fee categories

AASB Research Report 15	APESB 2021 ED
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>)

34. The audit and review firm fee categories as proposed in this memo remain broadly aligned with the AASB and APESB recommendations.

Further background information

35. Further background information as included in the April 2022 Board papers is provided in [Appendix 3](#). This includes:
 - (a) Existing disclosure requirements in New Zealand;
 - (b) Harmonisation with Australia; and
 - (c) Rationale for the proposed amendments.

Update to proposed enhanced disclosures

36. **Table 3** on the next page provides an overview of the key changes made to the proposed amendments in FRS-44 on fees paid to audit firms. The same changes have also been made to the PBE IPSAS 1 proposed amendments for PBEs.

² In March 2022 the APESB re-exposed the ED for changes to the referral source provisions of the Code, there was general support for the fee category provisions as exposed in May 2021.

Table 3: key changes to the proposed FRS-44 amendments The full draft of the proposed enhanced disclosure requirements is provided in Appendix 1		Staff comments
Fees paid to Audit Firms General provisions		
(a) Paragraph 8.1	<p><u>Objective paragraph added</u></p> <p>The objective of this disclosure is to provide information that enables users of financial statements to understand and consider the total fees incurred in the reporting period for:</p> <ul style="list-style-type: none"> (a) the audit or review of the entity’s financial statements; and (b) each other type of service provided by the entity’s audit or review firm. 	<p>Based on feedback received, staff considered it would be useful to include an opening paragraph to explain the objective of the disclosure requirements.</p> <p>The wording has been based on the disclosure approach recently proposed by the IASB: <i>Disclosure Requirement in IFRS Standards – A Pilot Approach ED</i>.</p>
(b) Paragraph 8.2	<p><u>Audit or review firm fee categories</u></p> <p>The number of categories and the category labels remain consistent with that discussed at the April 2022 NZASB and Joint NZASB/NZAuASB Meeting.</p> <p>The proposals include a requirement to disclose the fees incurred for each type of service performed by the entity’s audit or review firm using the following categories:</p> <ul style="list-style-type: none"> (a) Audit or review of the financial statements (b) Audit or review related services (c) Other assurance services (d) Taxation services (e) Other services 	<p>The proposed categories remain aligned with those as recommended by the AASB and APESB and are consistent with our review of similar disclosure category approaches used internationally.</p> <p>A key discussion point during the development of the proposed categories was, where do agreed upon procedures (AUP) engagements fit?</p> <p>When providing the draft proposals for key stakeholder review in mid-April 2022, we highlighted that based on the categories as described, the preparer will be required to apply judgement when determining whether an AUP engagement should be categorised under one of the following categories:</p> <ul style="list-style-type: none"> (a) <u>Audit or review related services</u> – when the nature of the AUP engagement is considered to be closely related to the work performed as part of the financial statement audit or review and /or it is reasonable to expect the services to be carried out by the entity’s auditor or reviewer; or

		<p>(b) <u>Other services</u> – when the nature of the AUP engagement is not considered to meet the description of an “audit or review related service”.</p> <p>All key stakeholder respondents (except for one) highlighted <u>no</u> concerns with this approach. There were strong views from some assurance practitioners and NZAuASB members (and staff) that AUP engagements should not be grouped under the “other assurance services” category. Therefore, respondents were supportive of the proposed categories as named and described.</p> <p>One respondent suggested that an additional category could be added for “Other Agreed Upon Procedures Engagements” because these services are considered to be “assurance-like engagements” and it did not feel appropriate that some of these AUP services may be classified under “other services”.</p> <p>On balance, staff suggests the categories (which are aligned with AASB and APESB recommendations) remain as drafted. When AUP assignments are not categorised as “audit or review related services”, it is appropriate for the AUP service to be categorised under “other services”. The proposed disclosures require each type of service provided by an audit or review firm to be clearly described.</p>
<p>(c) Paragraph 8.3</p>	<p><u>New paragraph added</u></p> <p>Paragraph 8.2 requires the separate disclosure (under specified categories) of the fees incurred for services received from:</p> <p>(a) the entity’s audit or review firm; and</p> <p>(b) each other audit or review firm involved in any element of the audit or review of the entity’s financial statements, including the subsidiary financial statements when consolidated financial statements are presented.</p>	<p>The new paragraph was added to make it clear that the application of paragraph 8.2 requires the separate disclosure of services provided by <u>each</u> audit or review firm involved in the audit or review of the entity’s financial statements, including the audit or review of the subsidiary financial statements when consolidated financial statements are presented.</p> <p>This is consistent with the intention of existing disclosure requirements in FRS-44.</p>

<p>(d) Paragraph 8.4</p>	<p><u>Reference to fee “paid”</u></p> <p>All references to fees “paid” have been removed and instead, the standard refers to fees “incurred” in the reporting period.</p>	<p>Key stakeholder review respondents highlighted that the reference to “paid” was inconsistent with the accrual-based principle in paragraph 8.4, which provides that the “<i>disclosure of the fees incurred for services from each audit or review firm will be based on the amount of fees expensed (and/or capitalised) by the entity during the reporting</i>”.</p> <p>The reference to the possibility that audit fees may also be “capitalised” was added based on comments received from AASB staff. We feel this outcome would be unusual but has been included for completeness.</p>
<p>(e) Paragraph 8.7</p>	<p><u>New paragraph added on materiality</u></p> <p>An entity need not provide the separate disclosure of the fee for each type of other service, as required by paragraph 8.2(b) if the information resulting from the separate disclosure is not considered material. Materiality considerations should be based on both the monetary amount of the fees and the nature of the services. An entity is required to apply materiality judgements when making decisions about what information to disclose.</p>	<p>New paragraph added in response to feedback received from an assurance practitioner on the NZAuASB. The respondent noted it would be useful for materiality considerations to be included within the proposed amendments, given the potential granularity of the resulting disclosures.</p> <p>This paragraph was included in the version sent to key stakeholders for review in mid-April 2022. No concerns were noted, but one respondent questioned if this was needed as materiality is overarching consideration for all disclosures and a guidance paragraph of this nature is not typically provided for specific disclosure requirements.</p>
<p>(f) Paragraph 8.8</p>	<p><u>New paragraph on bundled services</u></p> <p>When an entity incurs a single fee for a bundle of services from its audit or review firm, the entity shall, when practical, allocate the fee to each different type of service, to meet the disclosure objective in paragraph 8.1. The fee allocation shall be based on the estimated amount of the stand-alone fee for each service as a proportion of the single fee amount. Where such a fee allocation is not practical, this shall be disclosed.</p>	<p>New paragraph was added in response to a request from a Board member for guidance on what to do if an audit firm “bundles” together several different types of services into a single all-inclusive fee.</p> <p>The drafting is based on the requirement to identify separate performance obligations in IFRS 15 <i>Revenue from Contracts with Customers</i>.</p>

Audit of review of the financial statements		
<i>Additional guidance has been added to provide clarity over what is included in the total fee of the financial statement audit or review.</i>		
(g) Paragraph 8.12	<p><u>New paragraph</u></p> <p>The total fees for the audit or review of the financial statements include all the services performed by the auditor as required to enable them to issue an audit opinion or review conclusion on the financial statements and provide other required communications to those charged with governance as part of the audit or review engagement.</p>	<p>To help clarify the scope of the financial statement audit or review engagement.</p>
(h) Paragraph 8.14	<p><u>New paragraph</u></p> <p>The total fees under this category also include, when consolidated financial statements are presented, any fees incurred for the audit or review of the entity's subsidiary financial information. The total fees disclosed under this category will include any additional fees incurred as a result of issuing an audit opinion or review conclusion on the separate financial statements of the subsidiary entities.</p>	<p>New paragraph was added in response to a request from a Board member for guidance on how to treat audit or review fees incurred for the issuance of separate audit opinions or review conclusions on the subsidiary financial statements.</p> <p>When consolidated financial statements are prepared, the total audit or review fee expensed through the P&L of the group may include additional fees incurred when the auditor issues separate audit opinions (or review conclusions) for subsidiary entity financial statements. In these circumstances, paragraph 8.14 clarifies that the entity is not required to disclose separately the additional fees incurred for issuing separate audit reports or review opinions for subsidiary financial statements in the consolidated financial statements.</p> <p>The basis for this approach is based on cost/benefit considerations.</p>
(i) Paragraph 8.15 & Paragraph 8.16	<p><u>New paragraphs</u></p> <p>Examples of services that will be included as part of the financial statement audit or review fee.</p> <p>Examples of services that will <u>not</u> be included as part of the financial statement audit or review fee.</p>	<p>New paragraph was added in response to a request from a Board member for examples to provide further guidance/clarity concerning services that will form part of the financial statement audit or review fee.</p> <p>The drafting of the examples is based on guidance issued by the US Securities and Exchange Commission FAQ Guidance on the disclosure of audit fees.</p> <p>Mixed responses were received from the key stakeholder group review of these new paragraphs. Some highlighted their usefulness and others questioned if they were needed given the existing understanding of the 'financial statement audit fee' was well understood in practice.</p>

Audit of review related services		
(j) Paragraph 8.17	<p><u>Refinement to the category description</u></p> <p>Audit or review related services include services which are:</p> <p>(a) closely related to the work performed as part of the financial statement audit or review engagement, but which are not required to complete the audit or review engagement described in paragraphs 8.9 – 8.16; and/or</p> <p>(b) services where it is reasonable to expect the services to be carried out by the entity’s auditor or reviewer.</p>	<p>This description is very similar to what was presented at the Joint NZASB/NZAuASB Meeting and received Board support.</p> <p>The main change was to amend the second limb of the description to refer to “<u>reasonable to expect...</u>”</p> <p>No concerns with the description as drafted were noted through the key stakeholder review. In particular, NZAuASB staff and the FMA highlighted support for the description of the category as drafted.</p>
(k) Paragraph 8.18	<p><u>New paragraph</u></p> <p>Audit or review related services include those services that are largely carried out by members of the financial statement audit or review engagement team and generally rely significantly on synergies in knowledge gained from undertaking the financial statement audit or review engagement. There are often <u>benefits from an efficiency and effectiveness perspective to the auditor or reviewer performing certain audit or review related services, the provision of which will generally not create a self-review threat to auditor independence.</u></p>	<p>Respondents to the key stakeholder review noted the need to emphasise — that it is important not to exclude the possibility of an entity deriving benefits from additional services that are best provided by the auditor or reviewer of the entity’s general purpose financial statements, without compromising the audit firm’s independence.</p>
(l) Paragraph 8.22	<p><u>New paragraph</u></p> <p>Audit or review-related services will also include other financial statement audit or review fees incurred and borne by the entity concerning the entity’s associates, joint ventures, and other related entities.³</p>	<p>New paragraph was added in response to a request from a Board member for guidance on how to treat financial statement audit or review fees <u>borne</u> by the reporting entity for entities not consolidated into the group financial statements – such as associates, joint ventures, and other related entities.</p> <p>For example, ANZ discloses in their annual financial statements discloses “<i>fees related to certain managed funds not recharged</i>” to recognise the audit fees incurred by the reporting entity for separate reporting entities which are managed by the entity but not consolidated (because they are not controlled).</p> <p>The additional paragraph provides clarity that audit or review fees of this nature which are borne by reporting entity are disclosed under this fee category.</p>

³ Other related entities include for example (a) retirement benefit plans managed by the reporting entity to provide employee benefits; and (b) investment schemes where the entity is the scheme manager.

Other assurance services		
No significant changes have been made from the draft considered at Joint NZASB/NZAuASB Meeting.		
Taxation services		
(m) Paragraph 8.30	<p><u>Footnote added</u></p> <p>PES 1 <i>Professional and Ethical Standard 1</i>, as applied by auditors and other assurance practitioners, include requirements that prohibit a firm and network firm from providing certain tax services to audit or review clients in certain circumstances because the threats created to auditor independence cannot be addressed by applying safeguards.</p>	<p>In response to the key stakeholder review, APESB staff highlighted the need for a ‘health warning’ to be included in the proposed disclosure requirements through a footnote. To highlight that PES 1 specifically prohibits auditors and other assurance practitioners from providing certain tax services to their audit clients.</p> <p>The need for the footnote is required because the examples in paragraph 8.30 include certain services which are prohibited for audit and other assurance practitioners to provide to public interest entities (PIEs).</p>
(n) Paragraph 8.31	<p><u>New paragraph added</u></p> <p>When fees for <u>taxation services</u> are incurred, an entity shall disclose information about how it identifies, evaluates, and mitigates the possible threats to auditor or reviewer independence that might arise from the provision of the other services by the audit or review firm.</p>	<p>In response to the key stakeholder review, the FMA “strongly recommended that entities should disclose more information about the risks non-assurance services pose to the assurance provider’s independence and how the entity manages and monitor the independence risk when non-audit services are provided.”</p>
Other services		
(o) Paragraph 8.34	<p><u>Footnote added</u></p> <p>PES 1, as applied by auditors and other assurance practitioners, describes the types of threats to auditor independence that might be created by the provision of other services by the audit or review firm. In certain circumstances and for specific types of services, PES 1 expressly prohibits a firm or network firm from providing other services to an audit or review client because the threats created cannot be addressed by applying safeguards.</p>	<p>In response to the key stakeholder review, the APESB highlighted the need for a ‘health warning’ to be included in the proposed disclosure requirements through a footnote: To highlight that PES 1 specifically prohibits auditors and other assurance practitioners from providing certain other services to their audit clients.</p> <p>The need for the footnote is required because the examples in paragraph 8.33 include services which are prohibited for auditors and other assurance practitioners to provide to public interest entities (PIEs).</p>

<p>(p) Paragraph 8.31</p>	<p><u>New paragraph added</u> When fees for <u>other services</u> are incurred, an entity shall disclose information about how it identifies, evaluates, and mitigates the possible threats to auditor or reviewer independence that might arise from the provision of the other services by the audit or review firm.</p>	<p>In response to the key stakeholder review, the FMA “strongly recommended that entities should disclose more information about the risks non-assurance services pose to the assurance providers independence and how the entity manages and monitor the independence risk when non-audit services are provided.”</p>
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Question for the Board

Q1. Does the Board agree with the changes to the proposed disclosure requirements as outlined in Table 3 above?

Tier 2 reduced disclosures

37. In general, we consider that the disclosure of information concerning fees paid to an entity's audit or review firm will provide useful and important information for users of both Tier 1 and Tier 2 financial statements. Staff, therefore, suggest no disclosure concessions be proposed except for those noted below.
38. We recommended that for the following two paragraphs, reduced disclosure requirements should be included in the proposed amendments to FRS-44 or Tier 2 entities.
- Paragraph 8.31 When fees for taxation services are incurred, an entity shall disclose information about how it identifies, evaluates, and mitigates the possible threats to auditor or reviewer independence that might arise from the provision of the other services by the audit or review firm.
- Paragraph 8.35 When fees for other services are incurred, an entity shall disclose information about how it identifies, evaluates, and mitigates the possible threats to auditor or reviewer independence that might arise from the provision of the other services by the audit or review firm.
39. The equivalent reduced disclosure requirements have also been included in the proposed amendments to PBE IPSAS 1.
40. In the invitation to comment we will ask a question about whether any additional disclosure exemptions should be provided.

Disclosure of audit tenure

41. At the April NZASB meeting, the question of whether information about audit tenure should be disclosed in general purpose financial statements was raised for consideration. The Board at this time agreed to continue a discussion on this matter at a future meeting.
42. The debate is still raging around the world by regulators, standard-setters, academics, auditors, and directors on whether a long-tenured auditor has a positive or negative impact on audit quality. On one hand, an auditor who has served many consecutive years on an audit is in the best position to understand the reporting entity, its processes, and controls and, therefore, perform the most robust risk assessments and the most efficient audit. On the other hand, long audit tenure is often seen as a threat to auditor independence that requires consideration by those charged with governance.
43. There is general agreement that information about audit tenure should be considered by directors and audit committees when assessing auditor independence. However, there is less consensus on the benefits of this information being disclosed in general purpose financial statements based on standardised reporting requirements.
44. Some argue that the disclosure of audit tenure in general purpose financial statements will put undue pressure on a reporting entity to change audit firms. Audit tenure is just one factor that an entity should consider when assessing the performance of the auditor and any threats to auditor independence. Many also consider that the need for increased disclosure on audit

tenure has been alleviated by the introduction of firm specific audit partner rotation requirements in PES 1.

45. Some commentators consider that the most logical location for the disclosure of information about audit tenure is in the directors' report. The directors are responsible for assessing auditor independence. Auditor tenure is an important input into these considerations and the directors should be able to shape the information provided in the context of fulfilling these responsibilities. Further, including audit tenure information in the directors' report would complement the existing auditor independence disclosures provided by directors in the directors' report under corporate reporting regulations.

Status in New Zealand

46. There is currently no requirement in Accounting or Auditing Standards as issued by the XRB to disclose audit tenure in an entity's financial statement or audit opinion.
47. We note that in New Zealand, the long association provisions in PES 1 provide for mandatory auditor rotation requirements for audit partners of FMC audits — engagement lead audit partners are required to rotate every seven years, or five years for most of NZX-listed entities. However, PES 1 has no mandatory audit firm rotation requirement to avoid a long or overly close relationship with a client.
48. FMA guidance highlights that the directors' responsibilities include the need to continually assess the auditor's independence for the entire length of the entity's relationship with the audit firm. In the annual report, directors are encouraged to provide information about any threats identified to auditor independence and how these threats are being mitigated. However, there is no specific FMA guidance on the disclosure of audit tenure.
49. The NZAuASB recently considered whether information about audit tenure should be included in the audit report for PIEs. The strong consensus from the NZAuASB was that it would not be appropriate to introduce domestic requirements concerning audit tenure at this time. Given the sensitivity and complexity⁴ of this disclosure, the NZAuASB did not feel it was appropriate to move ahead of international standard-setting in this space.
50. In response to the recent request to review the enhanced audit fee disclosure requirements, the FMA noted the following points on audit tenure.
- *“The disclosure of audit fees is only one indicator of potential independence conflicts. There are some other conflicts that should be further considered by the External Reporting Board. Our audit quality reviews also indicated that where the firm has been long associated with the entity that the audit file was lacking documentation about the understanding of the entity, and we also noticed deterrence of basic audit procedures in these instances”.*
 - *“At the introduction of the Key Audit Matters, the FMA recommended that the length of the relationship between the entity and the auditor/audit firm should be disclosed. We*

⁴ There is mixed view on how audit tenure should be measured and difficult questions about what would be a long tenure where additional disclosures should be required – 5 years, 10 year, or 15 years?

remain of the view this is important information for the reader of the financial statements and that that should be able to obtain this information easily.”

Status in Australia

51. The Australian Parliamentary Joint Committee (PJC) report, *Regulation of Auditing in Australia* (November 2020) recommended that:
 - Audited entities should disclose auditor tenure, of both the auditor and the lead partner, in annual financial reports; and
 - Audited entities that have not undertaken a public tender in the last 10 years should explain why this has not occurred.
52. The PJC recommendations are built off the view longer-term audit tenure could lead to over-familiarity and, in turn, an erosion of professional scepticism which threatens auditor independence and the ability to perform high-quality audits.
53. Ahead of any formal Australian Federal Government response, we note that the Australian Institute of Directors (AICD) plans to develop voluntary guidance for directors on disclosing information about audit tenure in the annual report.
54. The AASB in June 2021 agreed not to propose amendments to the Australian Accounting Standards to require auditor tenure disclosure in general purpose financial statements at this time, but instead agreed to continue monitoring the work being carried out by the AICD in respect of listed entities. We understand that the AASB is planning to consider the question of auditor tenure disclosures in financial statements (in response to PJC recommendations) again later this year.

Status internationally

55. Currently, auditor tenure disclosures are mandatory in a number of jurisdictions, including the United States of America, the United Kingdom, and South Africa. In all these jurisdictions auditor tenure is disclosed in the audit report.
56. There is currently no requirement (and no active projects to develop requirements) to disclose information about audit tenure in general purpose financial statements by international standard-setting Boards – IASB or IPSASB. We also understand that there is no active project by the IAASB to require information about audit tenure to be included in the audit report.

Staff views

57. At present, we believe that the Board should not include requirements to disclose information about audit tenure as part of this consultation. The case is not yet strong enough for the disclosure of information about audit tenure in general purpose financial statements.
58. We will continue to follow closely the ongoing discussion on this matter by the AASB and developments internationally.

Question for the Board

- Q2. Does the Board agree with the staff view that a requirement to disclose audit tenure not be included in the proposed amendments?

Board approval of EDs

59. The proposed amendments for Board approval are provided in a clean format in this memo to support Board review and approval:
- (c) FRS-44 *New Zealand Additional Disclosures* (Tier 1 and Tier 2 For-Profit Standard) – refer to [Appendix 1](#).
 - (d) PBE IPSAS 1 *Presentation of Financial Statements* (Tier 1 and Tier 2 PBE Standard) – refer to [Appendix 2](#).
60. The draft Exposure Drafts (with consistent wording as Appendix 1 and Appendix 2 of this memo) for Board approval are provided in the accompanying draft EDs:
- *Disclosure of Fees Paid to Audit Firms* (Proposed amendments to FRS-44) – agenda item 5.2; and
 - *Disclosure of Fees Paid to Audit Firms* (Proposed amendments to PBE IPSAS 1) – agenda item 5.3.

Question for the Board

- Q3. Does the Board agree to issue for public consultation the draft EDs included as agenda items 5.2 and 5.3?

Next steps

61. We will complete the drafting of the Consultation Document (Invitation to Comment) , which will accompany the Exposure Drafts, and seek APPROVAL via email circularisation.
62. We note through the key stakeholder review process, that we have not received any public sector specific comments on the proposals. Before publishing, we will share the proposed amendments to PBE IPSAS 1 with the Office of the Auditor General and Audit NZ for any fatal flaw comments. We will seek Board agreement for any resulting amendments (unless substantial) to be reviewed and approved by the Chair.

Question for the Board

- Q4. Does the Board agree to the next steps and does the Board recommend any other actions before publishing the EDs for public consultation?

Attachments:

- 5.2 Draft ED: *Disclosure of Fees Paid to Audit Firm* (Proposed amendments to FRS-44)
- 5.3 Draft ED: *Disclosure of Fees Paid to Audit Firm* (Proposed amendments to PBE IPSAS 1)

Appendix 1:

Proposed amendments to FRS 44 *New Zealand Additional Disclosure*

Fees paid to audit firms

8.1 The objective of this disclosure is to provide information that enables users of general purpose financial statements to understand and consider the total fees incurred in the reporting period for:

- (a) the audit or review of the entity's financial statements; and
- (b) each other type of service provided by the entity's audit or review firm.

8.2 An entity shall disclose the fees incurred for services received from each audit or review firm⁵, separately for:

- (a) the audit or review of the financial statements ([see paragraph 8.9 – 8.16](#));**
- (b) each type of other service performed by the entity's audit or review firm during the reporting period, using the following categories:**
 - (i) audit or review related services ([see paragraph 8.17 – 8.22](#));**
 - (ii) other assurance services ([see paragraph 8.23 – 8.27](#));**
 - (iii) taxation services ([see paragraph 8.28 – 8.31](#)); and**
 - (iv) other services ([see paragraph 8.32 – 8.35](#)).**

8.3 Paragraph 8.2 requires the separate disclosure (under specified categories) of the fees incurred for services received from:

- (a) the entity's audit or review firm; and
- (b) each other audit or review firm involved in any element of the audit or review of the entity's financial statements, including the subsidiary financial statements when consolidated financial statements are presented.

8.4 The disclosure of the fees 'incurred' for services received from each audit or review firm will be based on the amount of fees expensed (and/or capitalised) by the entity during the reporting period. The fee will include any disbursements incurred in connection with providing the services (such as travel and accommodation costs).

8.5 The disclosure of fees incurred for other services in accordance with paragraph 8.2(b), is only required when the firm has performed (or is performing) a financial statement audit or review engagement.

⁵ An 'audit or review firm' is defined as a sole practitioner, partnership or corporation or other entity undertaking the audit or review of the general purpose financial statements. "Firm" should be read as referring to its public sector equivalents where relevant.

The audit or review firm includes any network firms who provided services during the period. A 'Network firm' is defined as an audit or review firm or entity that belongs to a network. A 'network' is a larger structure:

- (a) That is aimed at cooperation, and
- (b) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.

- 8.6 The descriptions used in this Standard for an *'audit engagement'*, a *'review engagement'*, and an *'assurance engagement'*, are based on the definitions of these terms as used in the professional and ethical standards issued by the New Zealand Auditing and Assurance Standards Board (NZAuASB).
- 8.7 An entity need not provide the separate disclosure of the fee for each type of other service, as required by paragraph 8.2(b), if the information resulting from the separate disclosure is not considered material. Materiality considerations should be based on both the monetary amount of the fees and the nature of the services. An entity is required to apply materiality judgements when making decisions about what information to disclose.
- 8.8 When an entity incurs a single fee for a bundle of services from its audit or review firm, the entity shall, when practical, allocate the fee to each different type of service, to meet the disclosure objective in paragraph 8.1. The fee allocation shall be based on the estimated amount of the stand-alone fee for each service as a proportion of the single fee amount. Where such a fee allocation is not practical, this shall be disclosed.

Audit or review of the financial statements

- 8.9 Fees for the audit or review of the financial statements refer to the audit or review of the entity's general purpose financial statements, as presented in accordance with NZ IAS 1 *Presentation of Financial Statements* or NZ IAS 34 *Interim Financial Reporting*.
- 8.10 A financial statement *audit engagement* is a reasonable assurance engagement where an assurance practitioner expresses an opinion on whether the historical financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. A financial statement audit engagement is conducted in accordance with applicable auditing and assurance standards.
- 8.11 A financial statement *review engagement* is a limited assurance engagement where an assurance practitioner provides a conclusion as to whether anything has come to their attention to indicate that the historical financial statements have not been prepared, in all material respects, in accordance with an applicable financial reporting framework. A financial statement review engagement is conducted in accordance with applicable auditing and assurance standards.
- 8.12 The total fees for the audit or review of the financial statements include all the services performed by the auditor as required to enable them to issue an audit opinion or review conclusion on the financial statements and provide other required communications to those charged with governance as part of the audit or review engagement.
- 8.13 The total fees under this category include work performed in relation to the:
- (a) annual financial statement audit or review engagement; and
 - (b) interim financial statement audit or review engagement (if applicable).
- 8.14 The total fees under this category also include, when consolidated financial statements are presented, any fees incurred for the audit or review of the entity's subsidiary financial information. The total fees disclosed under this category will include any additional fees incurred as a result of issuing an audit opinion or review conclusion on the financial statements of the subsidiary entities.

- 8.15 Examples of services, the fees for which should be included in this category include:
- (a) Attendance at audit committee meetings, board meetings, or annual general meetings for the purpose of discussing matters arising as a result of the financial statement audit or review engagement.
 - (b) Discussions with management about audit or accounting matters that arise during or as a result of the financial statement audit or review engagement.
 - (c) Preparation of a “management letter” to those charged with governance to report on the outcomes of the financial statement audit or review engagement, including advice and recommendations to improve the internal control environment.
 - (d) Time incurred in connection with the audit or review of the income tax accrual or deferred tax balances as reported in the financial statements.
- 8.16 Examples of services, the fees for which should not be included in this category include:
- (a) Internal control advisory services outside the scope of the audit or review engagement.
 - (b) Consulting engagements regarding the implementation of new accounting standards and reporting requirements.
 - (c) Internal audit services.
 - (d) Risk management advisory services.
 - (e) Due diligence procedures performed in connection with merger and acquisition procedures.
 - (f) Income tax services other than those directly related to the audit or review of the income tax accrual as reported in the financial statements.

Audit or review related services

- 8.17 Fees for audit or review related services include services which are:
- (c) closely related to the work performed as part of the financial statement audit or review engagement, but which are not required to complete the audit or review engagement described in paragraphs 8.9 – 8.16; and/or
 - (d) services where it is reasonable to expect the services to be carried out by the entity’s auditor or reviewer.
- 8.18 Audit or review related services include those services that are largely carried out by members of the financial statement audit or review engagement team and generally rely significantly on synergies in knowledge gained from undertaking the financial statement audit or review engagement. There are often benefits for the entity from an efficiency and effectiveness perspective when the auditor or reviewer performs certain audit or review related services, the provision of which will generally not create a self-review threat to auditor independence.
- 8.19 Audit or review related services also include services which are required by legislation or regulation to be performed by a suitably qualified auditor or assurance practitioner, when the services are closely related to the work performed as part of the financial statement audit or review engagement and/or where it is reasonable to expect the services to be carried out by the auditor or reviewer of the entity’s financial statements.⁶

⁶ This will include specified engagements required under the Financial Markets Conduct Act 2013 to be performed by a qualified assurance practitioner.

8.20 To satisfy the disclosure requirements in paragraph 8.2(b)(i), the entity shall:

- (a) describe the nature of each type of audit or review related service; and**
- (b) disclose the total fees for each type of audit or review related service.**

8.21 Examples of types of audit or review-related services include engagements concerning:

- (a) summary financial statements;
- (b) forecast financial statements;
- (c) reporting on whether processes, procedures, and controls relating to the financial reporting system are suitably designed and operating effectively;⁷
- (d) compliance with banking covenants; and
- (e) reporting satisfaction of grant obligations.

8.22 Audit or review-related services will also include other financial statement audit or review fees incurred and borne by the entity concerning the entity's associates, joint ventures, and other related entities.⁸

Other assurance services

8.23 Other assurance services include any assurance service provided by an audit or review firm which have not been classified under categories 8.2(a) or 8.2(b)(i).

8.24 An *assurance service* involves an independent assurance practitioner evaluating information against certain criteria and expressing a conclusion about the information as a result of this evaluation, with a view to enhance the confidence of the intended users of this conclusion. Assurance engagements are conducted in accordance with applicable assurance standards.

8.25 This category includes assurance services that do not rely significantly on synergies in knowledge gained from undertaking the financial statement audit or review engagement.

8.26 To satisfy the disclosure requirements in paragraph 8.2(b)(ii), the entity shall:

- (a) describe the nature of each type of other assurance service; and**
- (b) disclose the total fees for each type of other assurance service.**

8.27 Examples of types of other assurance services include assurance engagements on:

- (a) greenhouse gas statements or other sustainability reports;
- (b) adherence to cyber/cloud security procedures; and
- (c) other regulatory assurance engagements which are not considered to be audit or review related services.

Taxation services

8.28 Taxation services comprise non-audit and non-assurance services relating to ascertaining the entity's tax liabilities (or entitlements) or satisfying other obligations under taxation law. This

⁷ These assurance services may be required to satisfy regulatory requirements or may have been authorised by those charged with governance to give an additional level of comfort than that provided by the financial statement audit or review engagement.

⁸ Other related entities include for example (a) retirement benefit plans managed by the reporting entity to provide employee benefits; and (b) investment schemes where the entity is the scheme manager.

category excludes the review of tax balances or disclosures as part of performing the audit or review of the general purpose financial statements.

8.29 To satisfy the disclosure requirements in paragraph 8.2(b)(iii), the entity shall:

- (a) describe the nature of each type of taxation service; and**
- (b) disclose the total fees for each type of taxation service.**

8.30 Examples of types of taxation services include:⁹

- (a) tax return preparation;
- (b) tax calculations to prepare accounting entries;
- (c) tax planning and other tax advisory services;
- (d) tax services involving valuations; and
- (e) assistance in the resolution of tax disputes.

*8.31 When fees for taxation services are incurred, an entity shall disclose information about how it identifies, evaluates, and mitigates the possible threats to auditor or reviewer independence that might arise from the provision of taxation services by the audit or review firm.

Other services

8.32 Other services include any other services provided by the audit or review firm other than the services classified under categories 8.2(a) and 8.2(i) –(iii).

8.33 To satisfy the disclosure requirements in paragraph 8.2(b)(iv), the entity shall:

- (a) describe the nature of each type of other service; and**
- (b) disclose the total fees for each type of other service.**

8.34 Examples of types of other services include:¹⁰

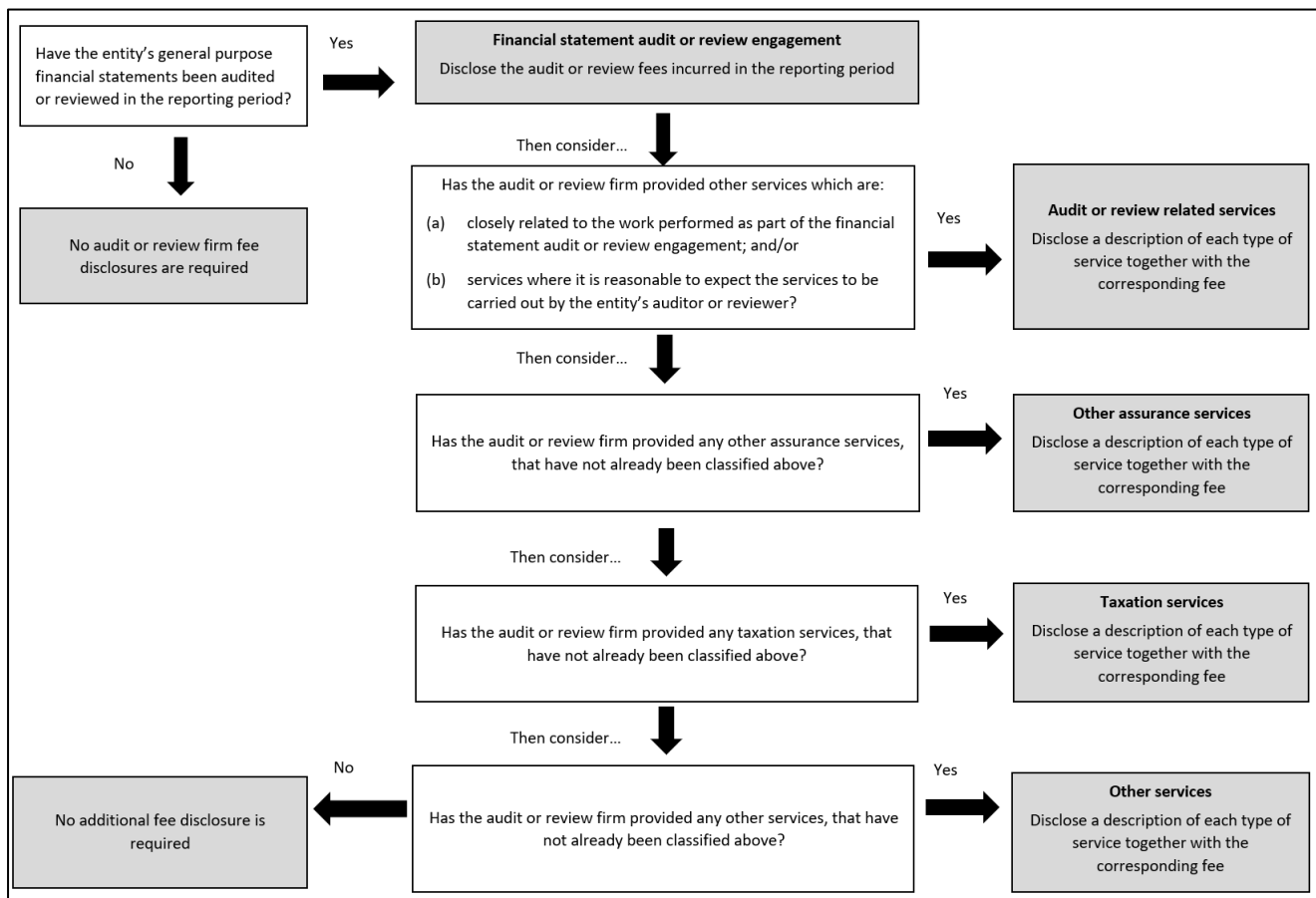
- (a) accounting and bookkeeping;
- (b) administration;
- (c) valuations (including actuarial valuations);
- (d) internal audit;
- (e) information technology (including financial information systems);
- (f) litigation support;
- (g) legal;
- (h) recruitment and remuneration;
- (i) corporate finance and restructuring; and
- (j) business acquisition due diligence.

⁹ PES 1 *Professional and Ethical Standard 1*, as applied by auditors and other assurance practitioners, include requirements that prohibit a firm and network firm from providing certain tax services to audit or review clients in certain circumstances because the threats created to auditor independence cannot be addressed by applying safeguards.

¹⁰ PES 1, as applied by auditors and other assurance practitioners, describes the types of threats to auditor independence that might be created by the provision of other services by the audit or review firm. In certain circumstances and for specific types of services, PES 1 expressly prohibits a firm or network firm from providing other services to an audit or review client because the threats created cannot be addressed by applying safeguards.

*8.35 When fees for other services are incurred, an entity shall disclose information about how it identifies, evaluates, and mitigates the possible threats to auditor or reviewer independence that might arise from the provision of the other services by the audit or review firm.

Fees paid to audit firms — Application of disclosure requirements



Appendix 2

Note for Board: PBE differences from the for-profit version are highlighted in blue.

Proposed amendments to PBE IPSAS 1 *Presentation of Financial Reports*

Fees paid to audit firms

116.1 The objective of this disclosure is to provide information that enables users of general purpose financial reports to understand and consider the total fees incurred in the reporting period for:

- (a) the audit or review of the entity's general purpose financial reports;¹¹ and
- (b) each other type of service provided by the entity's audit or review firm.

116.2 An entity shall disclose the fees incurred for services received from each audit or review firm¹², separately for:

- (a) the audit or review of the financial reports (see paragraph 116.10 – 116.17);**
- (b) each type of other service performed by the entity's audit or review firm during the reporting period, using the following categories:**
 - (i) audit or review related services (see paragraph 116.18 – 116.23);**
 - (ii) other assurance services (see paragraph 116.24 – 116.28);**
 - (iii) taxation services (see paragraph 116.29 – 116.32); and**
 - (iv) other services (see paragraph 116.33– 116.36).**

116.3 Paragraph 116.2 requires the separate disclosure (under specified categories) of the fees incurred for services received from:

- (a) the entity's audit or review firm; and
- (b) each other audit or review firm involved in any element of the audit or review of the entity's financial reports, including the controlled entities' financial reports when consolidated financial reports are presented.

116.4 For public sector entities, the 'audit or review firm' will be the Controller and Auditor-General. When applying paragraph 116.2, the fees incurred will include fees for services performed by any audit or review firm who completes the financial report audit or review engagement on behalf of the Controller and Auditor-General.¹³

¹¹ The entity's general purpose financial reports comprise of the financial statements and, where required, service performance information prepared in accordance with PBE FRS 48 *Service Performance Reporting*.

¹² An 'audit or review firm' is defined as a sole practitioner, partnership or corporation or other entity undertaking the audit or review of the general purpose financial reports. "Firm" should be read as referring to its public sector equivalents where relevant.

The audit or review firm includes any network firms who provided services during the period. A 'Network firm' is defined as an audit or review firm or entity that belongs to a network. A 'network' is a larger structure:

- (a) That is aimed at cooperation, and
- (b) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.

¹³ Public sector entities are public entities as defined in the Public Audit Act 2001, and all Offices of Parliament.

- 116.5 The disclosure of the fees 'incurred' for services received from each audit or review firm will be based on the amount of fees expensed (and/or capitalised) by the entity during the reporting period. The fee will include any disbursements incurred in connection with providing the services (such as travel and accommodation costs).
- 116.6 The disclosure of fees incurred for other services in accordance with paragraph 116.2(b), is only required when the firm has performed (or is performing) a financial report audit or review engagement. For public sector entities, this will include all services received from service providers involved in completing the financial statement audit or review engagement on behalf of the Controller and Auditor-General.
- 116.7 The descriptions used in this Standard for an 'audit engagement', a 'review engagement', and an 'assurance engagement', are based on the definitions of these terms as used in the professional and ethical standards issued by the New Zealand Auditing and Assurance Standards Board (NZAuASB).
- 116.8 An entity need not provide the separate disclosure of the fee for each type of other service, as required by paragraph 116.2(b) if the information resulting from the separate disclosure is not considered material. Materiality considerations should be based on both the monetary amount of the fees and the nature of the services. An entity is required to apply materiality judgements when making decisions about what information to disclose.
- 116.9 When an entity incurs a single fee for a bundle of services from its audit or review firm, the entity shall, when practical, allocate the fee to each different type of service to meet the disclosure objective in paragraph 116.1. The fee allocation shall be based on the estimated amount of the stand-alone fee for each service as a proportion of the single fee amount. Where such a fee allocation is not practical, this shall be disclosed.

Audit or review of the financial reports

- 116.10 Fees for the audit or review of the financial reports refer to the audit or review of the entity's general purpose financial reports, as presented in accordance with this standard or PBE IAS 34 *Interim Financial Reporting*. For public benefit entities this will include:
- (a) A complete set of financial statements; and
 - (b) Service performance information in accordance with PBE FRS 48, where this is required to be reported.
- 116.11 A financial report audit engagement is a reasonable assurance engagement where an assurance practitioner expresses an opinion on whether the historical financial reports are prepared, in all material respects, in accordance with an applicable financial reporting framework. A financial report audit engagement is conducted in accordance with applicable auditing and assurance standards.
- 116.12 A financial report review engagement is a limited assurance engagement where an assurance practitioner provides a conclusion as to whether anything has come to their attention to indicate that the historical financial reports have not been prepared, in all material respects, in accordance with an applicable financial reporting framework. A financial report review engagement is conducted in accordance with applicable auditing and assurance standards.
- 116.13 The total fees for the audit or review of the financial reports include all the services performed by the auditor as required to enable them to issue an audit opinion or review conclusion on the financial reports and provide other required communications to those charged with governance as part of the audit or review engagement.

- 116.14 The total fees under this category include work performed in relation to the:
- (a) annual financial **report** audit or review engagement; and
 - (b) interim financial **report** audit or review engagement (if applicable).
- 116.15 The total fees under this category also include, when consolidated financial **reports** are presented, any fees incurred for the audit or review of the financial reports of the entity's controlled entities. The total fees disclosed under this category will include any additional fees incurred as a result of issuing an audit opinion or review conclusion on the financial **reports** of the controlled entities.
- 116.16 Examples of services, the fees for which should be included in this category include:
- (a) Attendance at audit committee meetings, board meetings, or annual general meetings for the purpose of discussing matters arising as a result of the financial **report** audit or review engagement.
 - (b) Discussions with management about audit or accounting matters that arise during or as a result of the financial **report** audit or review engagement.
 - (c) Preparation of a "management letter" to those charged with governance to report on the outcomes of the financial **report** audit or review engagement, including advice and recommendations to improve the internal control environment.
 - (d) Time incurred in connection with the audit or review of the income tax accrual or deferred tax balances as reported in the financial **reports**.
- 116.17 Examples of services, the fees for which should not be included in this category include:
- (a) Internal control advisory services outside the scope of the audit or review engagement.
 - (b) Consulting engagements regarding the implementation of new accounting standards and reporting requirements.
 - (c) Internal audit services.
 - (d) Risk management advisory services.
 - (e) Due diligence procedures performed in connection with merger and acquisition procedures.
 - (f) Income tax services other than those directly related to the audit or review of the income tax accrual as reported in the financial **reports**.

Audit or review related services

- 116.18 Fees for audit or review related services include services which are:
- (a) closely related to the work performed as part of the financial **report** audit or review engagement, but which are not required to complete the audit or review engagement described in paragraphs 116.10 – 116.17; and/or
 - (b) services where it is reasonable to expect the services to be carried out by the entity's auditor or reviewer.
- 116.19 Audit or review related services include those services that are largely carried out by members of the financial **report** audit or review engagement team and generally rely significantly on synergies in knowledge gained from undertaking the financial **report** audit or review engagement. There are often benefits for the entity when the auditor or

reviewer performs certain audit-related services from an efficiency and effectiveness perspective, the provision of which will generally not create a self-review threat to auditor independence.

- 16.20 Audit or review related services also include services which are required by legislation or regulation to be performed by a suitably qualified auditor or assurance practitioner, when the services are closely related to the work performed as part of the financial report audit or review engagement and/or where it is reasonable to expect the services to be carried out by the auditor or reviewer of the entity's financial reports.¹⁴

116.21 To satisfy the disclosure requirements in paragraph 116.2(b)(i), the entity shall:

(a) describe the nature of each type of audit or review related service; and

(b) disclose the total fees for each type of audit or review related service.

116.22 Examples of types of audit or review-related services, include engagements concerning:

- (a) summary financial reports;
- (b) forecast financial reports;
- (c) reporting on whether processes, procedures, and controls relating to the financial reporting system are suitably designed and operating effectively;¹⁵
- (d) compliance with banking covenants; and
- (e) reporting satisfaction of grant obligations.

116.23 Audit or review-related services will also include other financial report audit or review fees incurred and borne by the entity concerning the entity's associates, joint ventures, and other related entities.¹⁶

Other assurance services

116.24 Other assurance services include any assurance service provided by an audit or review firm which have not been classified under categories 116.2(a) or 116.2(b)(i).

116.25 An *assurance service* involves an independent assurance practitioner evaluating information against certain criteria and expressing a conclusion about the information as a result of this evaluation, with a view to enhance the confidence of the intended users of this conclusion. Assurance engagements are conducted in accordance with applicable assurance standards.

116.26 This category includes assurance services that do not rely significantly on synergies in knowledge gained from undertaking the financial report audit or review engagement.

¹⁴ This will include specified engagements required under the Financial Markets Conduct Act 2013 to be performed by a qualified assurance practitioner.

¹⁵ These assurance services may be required to satisfy regulatory requirements or may have been authorised by those charged with governance to give an additional level of comfort than that provided by the financial report audit or review engagement.

¹⁶ Other related entities include for example (a) retirement benefit plans managed by the reporting entity to provide employee benefits; and (b) investment schemes where the entity is the scheme manager.

116.27 To satisfy the disclosure requirements in paragraph 116.2(b)(ii), the entity shall:

- (a) describe the nature of each type of other assurance service; and**
- (b) disclose the total fees for each type of other assurance service.**

116.28 Examples of types of other assurance services include assurance engagements on:

- (a) greenhouse gas statements or other sustainability reports;
- (b) adherence to cyber/cloud security procedures; and
- (c) other regulatory assurance engagements which are not considered to be audit or review related services.

Taxation services

116.29 Taxation services comprise non-audit and non-assurance services relating to ascertaining the entity's tax liabilities (or entitlements) or satisfying other obligations under taxation law. This category excludes the review of tax balances or disclosures as part of performing the audit or review of the general purpose financial reports.

116.30 To satisfy the disclosure requirements in paragraph 116.2(b)(iii), the entity shall:

- (a) describe the nature of each type of taxation service; and**
- (b) disclose the total fees for each type of taxation service.**

116.31 Examples of types of taxation services include:¹⁷

- (a) tax return preparation;
- (b) tax calculations to prepare accounting entries;
- (c) tax planning and other tax advisory services;
- (d) tax services involving valuations; and
- (e) assistance in the resolution of tax disputes.

*116.32 When fees for taxation services are incurred, an entity shall disclose information about how it identifies, evaluates, and mitigates the possible threats to auditor or reviewer independence that might arise from the provision of taxation services by the audit or review firm.

Other services

116.33 Other services include any other services provided by the audit or review firm other than the services classified under categories 116.2(a) and 116.2(i)–(iii).

116.34 To satisfy the disclosure requirements in paragraph 116.2(b)(iv), the entity shall:

- (a) describe the nature of each type of other service; and**
- (b) disclose the total fees for each type of other service.**

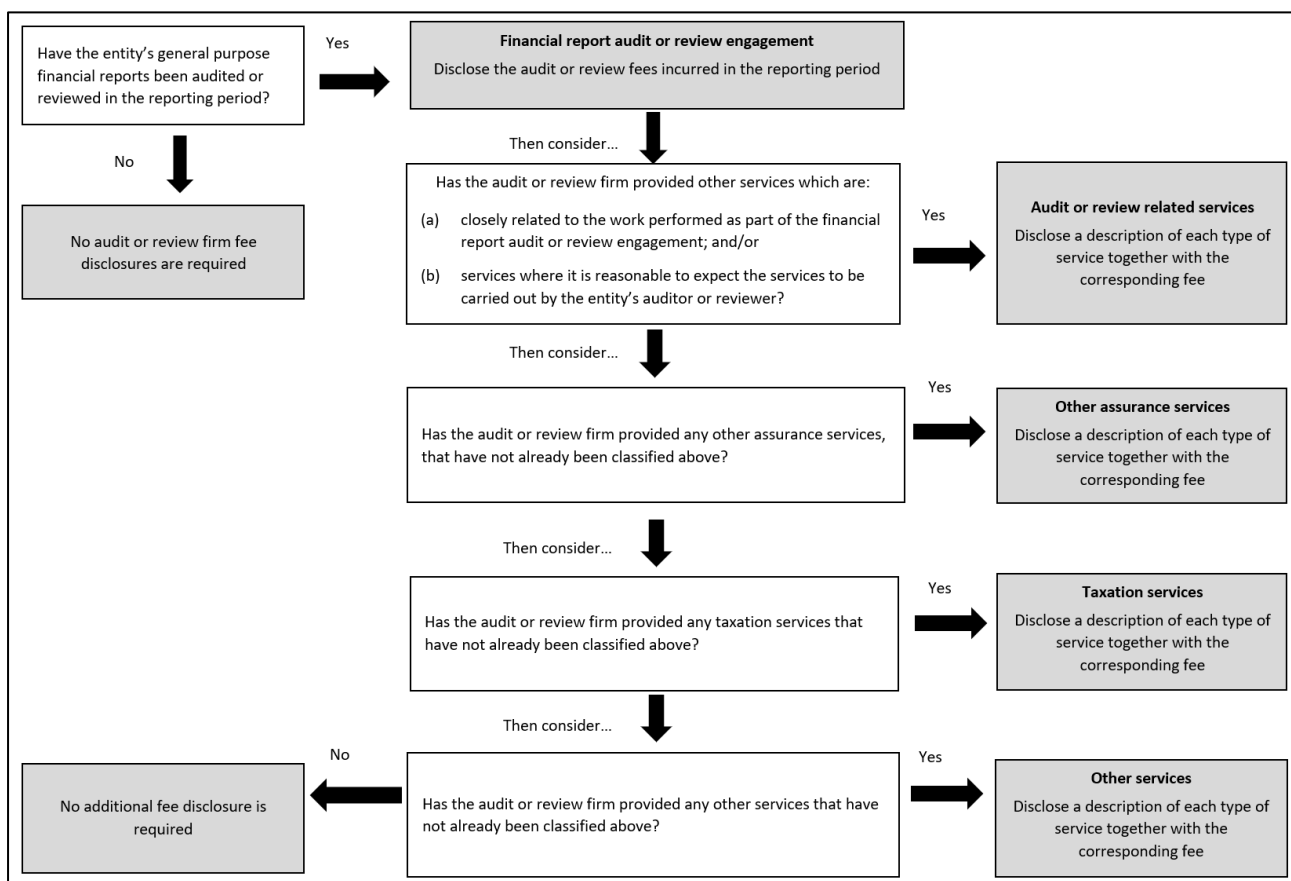
¹⁷ PES 1 *Professional and Ethical Standard* 1, as applied by auditors and other assurance practitioners, include requirements that prohibit a firm and network firm from providing certain tax services to audit or review clients in certain circumstances because the threats created to auditor independence cannot be addressed by applying safeguards.

116.35 Examples of types of other services include:¹⁸

- (a) accounting and bookkeeping;
- (b) administration;
- (c) valuations (including actuarial valuations);
- (d) internal audit;
- (e) information technology (including financial information systems);
- (f) litigation support;
- (g) legal;
- (h) recruitment and remuneration;
- (i) corporate finance and restructuring; and
- (j) business acquisition due diligence.

*116.36 When fees for other services are disclosed, an entity shall disclose information about how it identifies, evaluates, and mitigates the possible threats to auditor or reviewer independence that might arise from the provision of the other services by the audit or review firm.

Fees paid to audit firms — Application of disclosure requirements



¹⁸ PES 1, as applied by auditors and other assurance practitioners, describes the types of threats to auditor independence that might be created by the provision of other services by the audit or review firm. In certain circumstances and for specific types of services, PES 1 expressly prohibits a firm or network firm from providing other services to an audit or review client because the threats created cannot be addressed by applying safeguards.

Appendix 3 — Further background information

The following information was included in the April 2022 board papers.

Background

1. There is a diversity of views in New Zealand and internationally about the types of non-assurance work that should be restricted, and how this should be done. It is generally agreed that an audit or review firm should not undertake any work for an audit client that compromises, or could be seen to compromise, the independence, objectivity, and quality of the audit process.
2. The development of the proposed amendments to improve the disclosure of fees paid to an entity's audit or review firm is not intended to provide guidance about the types of non-assurance services that are restricted or prohibited. What services an audit or review firm can and cannot provide will continue to be guided by the professional and ethical standards as applied by audit practitioners
3. The Code of Ethics for Assurance Practitioners establishes a framework that requires the audit or review firm to identify, evaluate and address threats to independence created when the firm provides, or is asked to provide, other services to an audit or review client. The code provides for different independence considerations dependent on whether the reporting entity is a public interest entity (PIE).
4. The proposed amendments to the accounting standards intend to provide improved information to the users of general purpose financial statements, to allow them to assess the extent to which non-assurance services have been provided by the audit or review firm. The proposed amendments if issued will apply to all for-profit, not-for-profit, and public sector entities that apply Tier 1 and Tier 2 accounting standards as issued by the XRB.

Existing disclosure requirements in New Zealand

5. There are currently no specific audit fee disclosure requirements in IFRS Standards (or IPSAS). The IASB recognises that in many jurisdictions audit fee disclosure requirements are established through local laws and regulations. In New Zealand, we have a long history of reporting entities disclosing audit fees and other fees charged by the audit or review firms. These disclosures are currently established through domestic reporting requirements through legislation and domestic standards issued by the XRB.
6. The audit fee disclosures in New Zealand accounting standards and the Companies Act 1993 are shown below. The accounting standards refer to 'all other services' without specifying any further level of detail. However, there is a general requirement to disclose the nature of these other services.

Table 1 Current audit fee disclosure requirements

FRS-44 New Zealand Additional Disclosures (Tier 1 and Tier 2 for-profit entities)	
*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 (Tier 1 and Tier 2 public benefit entities)	
*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 1993	
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— <ul style="list-style-type: none"> ... (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.

7. There have been calls for reporting entities in New Zealand to provide improved disclosure about the total fees paid to the audit or review firm, by using defined categories of non-audit services. In response to this demand, FMA guidance¹⁹ has shaped recent accounting practice.
8. The audit fee disclosure categories encouraged by the FMA are as follows.
 - (a) Audit and review of financial statements.
 - (b) Other services
 - Regulatory audit work
 - Other assurance services
 - Tax services
 - Other services.

¹⁹ Disclosure of fees paid to auditors by listed issuers (FMA, April 2014)

Harmonisation with Australia

9. The New Zealand Accounting Standards Framework, which forms the basis for developing New Zealand accounting Standards, recognises that the differences between accounting standards issued in Australia and New Zealand for for-profit entities should be minimised wherever possible to reduce the costs for entities operating trans-Tasman.
10. The Australian and New Zealand audit fee disclosures for **Tier 1** entities are currently harmonised.
11. 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. We note that Tier 2 entities in Australia are currently required to apply all disclosure requirements in relation to fees paid to audit firms, but Tier 2 entities in New Zealand are provided with an RDR concession.
12. We note the AASB is working on proposals to require *auditor remuneration* disclosures that intend to achieve the same outcomes as the amendments discussed in this memo. The AASB project is currently in a holding position while the AASB waits for a Federal Government response to the recommendations made by the Australia Joint Committee (PJC) report, *Regulation of Auditing in Australia* (November 2020). The next step in the AASB project is the issuance of an ED, but no expected issuance date has yet been set.
13. The intention remains to continue working closely with the AASB on this project and to seek harmonisation. However, as previously mentioned the Board in December 2021 agreed to move ahead and develop proposed amendments to disclosures on fees paid to audit firms ahead of AASB pronouncements on this topic.

Rationale for proposing amendments

14. 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 assessments about auditor independence. The proposed disclosures will also provide for improved information about the cost of the audit, assurance, and other services provided by the audit firm to the reporting entity.
15. Regulators consider that mandatory disclosure of audit fees and other types of services provided by the audit firm allows investors and other financial statement users to evaluate potential conflicts of interest that could compromise auditor objectivity.²⁰ The disclosure in the financial statements, together with disclosures in the auditor's report about any relationship between the reporting entity and the audit firm other than as auditor, informs the user's evaluation of auditor independence.

²⁰ Similar views have been expressed by New Zealand investors in interviews with XRB staff.

16. Audit or review firm fee disclosure in the financial statements is one of several mechanisms available to encourage and maintain public confidence in auditor independence. Other mechanisms available include:
 - (a) prohibitions on auditors from providing certain 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 through other reports.

17. We appreciate auditors are sometimes asked or are required to provide other services to audit clients. There are three main types of non-audit services where it is generally considered beneficial for these services to be performed by the auditor or reviewer of the general purpose financial statements:
 - (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.

18. We also note comments previously received from XRAP members that it is important that any required disclosures on fees paid to audit firms do not provide the impression that all no-audit related-fees should be avoided because they lead to independence risk. It is important not to exclude the possibility of the entity deriving benefit from additional services that are best provided by the auditor or reviewer of the entity's general purpose financial statements, without compromising the audit firm's independence.

19. Based on the understanding that audit firms will continue to provide other non-audit services to their audit clients (even with increased restrictions in ethical standards), there is a case for introducing enhanced disclosure about non-audit services being performed by an entity's audit firm.

20. Separating fees paid to audit firms into additional categories of non-audit services will provide enhanced information to users (to assist them to evaluate whether the auditors and those charged with governance have appropriately exercised their judgement as to whether those other services impair auditor independence). XRAP members previously highlighted the importance of such disclosures.



NZASB EXPOSURE DRAFT 2022-X

Disclosure of Fees Paid to Audit Firms

Issued [Date]

This [draft]¹ Standard was issued on [Date] by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This [draft] 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 [Date].

Reporting entities that are subject to this [draft] Standard are required to apply it in accordance with the effective date, which is set out in Part D.

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

This [draft] Tier 1 and Tier 2 for-profit standard requires an entity to describe the services provided by the audit firm and to disclose the fees paid by the entity for those services.

¹ References to “this Standard” throughout this Exposure Draft should be read as referring to “this draft Standard”.

DISCLOSURE OF FEES PAID TO AUDIT FIRMS
(AMENDMENTS TO FRS-44)

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DISCLOSURE OF FEES PAID TO AUDIT FIRMS
(AMENDMENTS TO FRS-44)

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Part A – Introduction

This Standard sets out amendments to FRS-44 *New Zealand Additional Disclosures*. The amendments require an entity to describe the services provided by the audit firm and to disclose the fees paid by the entity for those services.

Tier 2 entities are required to comply with all the requirements in this Standard, except for paragraphs in this Standard denoted with an asterisk (*).

Part B – Scope

This Standard applies to Tier 1 and Tier 2 for-profit entities.

Part C – Amendments to FRS-44 *New Zealand Additional Disclosures*

The existing paragraphs 8.1 and 8.2 on fees paid to auditors have been replaced, with the deleted text struck through.

The new paragraphs 8.1 to 8.35 (and the related headings) have been added. For ease of reading, new text is not underlined.

Disclosures

...

Audit fees

~~*8.1 — An entity shall disclose fees to each auditor or reviewer, including any network firm, separately for:~~

- ~~— (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.~~

Fees paid to audit firms

- 8.1 The objective of this disclosure is to provide information that enables users of general purpose financial statements to understand and consider the total fees incurred in the reporting period for:
- (a) the audit or review of the entity's financial statements; and
 - (b) each other type of service provided by the entity's audit or review firm.
- 8.2 **An entity shall disclose the fees incurred for services received from each audit or review firm², separately for:**
- (a) **the audit or review of the financial statements (see paragraph 8.9 – 8.16);**
 - (b) **each type of other service performed by the entity's audit or review firm during the reporting period, using the following categories:**
 - (i) **audit or review related services (see paragraph 8.17 – 8.22);**
 - (ii) **other assurance services (see paragraph 8.23 – 8.27);**
 - (iii) **taxation services (see paragraph 8.28– 8.31); and**
 - (iv) **other services (see paragraph 8.32 – 8.35).**
- 8.3 Paragraph 8.2 requires the separate disclosure (under specified categories) of the fees incurred for services received from:
- (a) the entity's audit or review firm; and
 - (b) each other audit or review firm involved in any element of the audit or review of the entity's financial statements, including the subsidiary financial statements when consolidated financial statements are presented.
- 8.4 The disclosure of the fees 'incurred' for services received from each audit or review firm will be based on the amount of fees expensed (and/or capitalised) by the entity during the reporting period. The fee will include any disbursements incurred in connection with providing the services (such as travel and accommodation costs).
- 8.5 The disclosure of fees incurred for other services in accordance with paragraph 8.2(b), is only required when the firm has performed (or is performing) a financial statement audit or review engagement.
- 8.6 The descriptions used in this Standard for an 'audit engagement', a 'review engagement', and an 'assurance engagement', are based on the definitions of these terms as used in the professional and ethical standards issued by the New Zealand Auditing and Assurance Standards Board (NZAuASB).
- 8.7 An entity need not provide the separate disclosure of the fee for each type of other service, as required by paragraph 8.2(b), if the information resulting from the separate disclosure is not considered material. Materiality considerations should be based on both the monetary amount of the fees and the nature of the services. An entity is required to apply materiality judgements when making decisions about what information to disclose.
- 8.8 When an entity incurs a single fee for a bundle of services from its audit or review firm, the entity shall, when practical, allocate the fee to each different type of service, to meet the disclosure objective in paragraph 8.1. The fee allocation shall be based on the estimated amount of the stand-alone fee for each service as a proportion of the single fee amount. Where such a fee allocation is not practical, this shall be disclosed.

Audit or review of the financial statements

- 8.9 The audit or review of the financial statements refer to the audit or review of the entity's general purpose financial statements, as presented in accordance with NZ IAS 1 *Presentation of Financial Statements* or NZ IAS 34 *Interim Financial Reporting*.

² An 'audit or review firm' is defined as a sole practitioner, partnership or corporation or other entity undertaking the audit or review of the general purpose financial statements. "Firm" should be read as referring to its public sector equivalents where relevant.

The audit or review firm includes any network firms who provided services during the period. A 'Network firm' is defined as an audit or review firm or entity that belongs to a network. A 'network' is a larger structure:

- (a) That is aimed at cooperation, and
- (b) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.

DISCLOSURE OF FEES PAID TO AUDIT FIRMS
(AMENDMENTS TO FRS-44)

- 8.10 A financial statement *audit engagement* is a reasonable assurance engagement where an assurance practitioner expresses an opinion on whether the historical financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. A financial statement audit engagement is conducted in accordance with applicable auditing and assurance standards.
- 8.11 A financial statement *review engagement* is a limited assurance engagement where an assurance practitioner provides a conclusion as to whether anything has come to their attention to indicate that the historical financial statements have not been prepared, in all material respects, in accordance with an applicable financial reporting framework. A financial statement review engagement is conducted in accordance with applicable auditing and assurance standards.
- 8.12 The total fees for the audit or review of the financial statements include all the services performed by the auditor as required to enable them to issue an audit opinion or review conclusion on the financial statements and provide other required communications to those charged with governance as part of the audit or review engagement.
- 8.13 The total fees under this category include work performed in relation to the:
- (a) annual financial statement audit or review engagement; and
 - (b) interim financial statement audit or review engagement (if applicable).
- 8.14 The total fees under this category also include, when consolidated financial statements are presented, any fees incurred for the audit or review of the entity's subsidiary financial information. The total fees disclosed under this category will include any additional fees incurred as a result of issuing an audit opinion or review conclusion on the financial statements of the subsidiary entities.
- 8.15 Examples of services, the fees for which should be included in this category include:
- (a) Attendance at audit committee meetings, board meetings, or annual general meetings for the purpose of discussing matters arising as a result of the financial statement audit or review engagement.
 - (b) Discussions with management about audit or accounting matters that arise during or as a result of the financial statement audit or review engagement.
 - (c) Preparation of a "management letter" to those charged with governance to report on the outcomes of the financial statement audit or review engagement, including advice and recommendations to improve the internal control environment.
 - (d) Time incurred in connection with the audit or review of the income tax accrual or deferred tax balances as reported in the financial statements.
- 8.16 Examples of services, the fees for which should not be included in this category include:
- (a) Internal control advisory services outside the scope of the audit or review engagement.
 - (b) Consulting engagements regarding the implementation of new accounting standards and reporting requirements.
 - (c) Internal audit services.
 - (d) Risk management advisory services.
 - (e) Due diligence procedures performed in connection with merger and acquisition procedures.
 - (f) Income tax services other than those directly related to the audit or review of the income tax accrual as reported in the financial statements.

Audit or review related services

- 8.17 Audit or review related services include services which are:
- (a) closely related to the work performed as part of the financial statement audit or review engagement, but which are not required to complete the audit or review engagement described in paragraphs 8.9 – 8.16; and/or
 - (b) services where it is reasonable to expect the services to be carried out by the entity's auditor or reviewer.
- 8.18 Audit or review related services include those services that are largely carried out by members of the financial statement audit or review engagement team and generally rely significantly on synergies in knowledge gained from undertaking the financial statement audit or review engagement. There are often benefits to the entity from an efficiency and effectiveness perspective when the auditor or reviewer performs certain audit or review related services, the provision of which will generally not create a self-review threat to auditor independence.

DISCLOSURE OF FEES PAID TO AUDIT FIRMS
(AMENDMENTS TO FRS-44)

- 8.19 Audit or review related services also include services which are required by legislation or regulation to be performed by a suitably qualified auditor or assurance practitioner, when the services are closely related to the work performed as part of the financial statement audit or review engagement and/or where it is reasonable to expect the services to be carried out by the auditor or reviewer of the entity's financial statements.³
- 8.20 To satisfy the disclosure requirements in paragraph 8.2(b)(i), the entity shall:**
- (a) describe the nature of each type of audit or review related service; and
 - (b) disclose the total fees for each type of audit or review related service.
- 8.21 Examples of types of audit or review-related services include engagements concerning:
- (a) summary financial statements;
 - (b) forecast financial statements;
 - (c) reporting on whether processes, procedures, and controls relating to the financial reporting system are suitably designed and operating effectively;⁴
 - (d) compliance with banking covenants; and
 - (e) reporting satisfaction of grant obligations.
- 8.22 Audit or review-related services will also include other financial statement audit or review fees incurred and borne by the entity concerning the entity's associates, joint ventures, and other related entities.⁵

Other assurance services

- 8.23 Other assurance services include any assurance service provided by an audit or review firm which have not been classified under categories 8.2(a) or 8.2(b)(i).
- 8.24 An *assurance service* involves an independent assurance practitioner evaluating information against certain criteria and expressing a conclusion about the information as a result of this evaluation, with a view to enhance the confidence of the intended users of this conclusion. Assurance engagements are conducted in accordance with applicable assurance standards.
- 8.25 This category includes assurance services that do not rely significantly on synergies in knowledge gained from undertaking the financial statement audit or review engagement.
- 8.26 To satisfy the disclosure requirements in paragraph 8.2(b)(ii), the entity shall:**
- (a) describe the nature of each type of other assurance service; and
 - (b) disclose the total fees for each type of other assurance service.
- 8.27 Examples of types of other assurance services include assurance engagements on:
- (a) greenhouse gas statements or other sustainability reports;
 - (b) adherence to cyber/cloud security procedures; and
 - (c) other regulatory assurance engagements which are not considered to be audit or review related services.

Taxation services

- 8.28 Taxation services comprise non-audit and non-assurance services relating to ascertaining the entity's tax liabilities (or entitlements) or satisfying other obligations under taxation law. This category excludes the review of tax balances or disclosures as part of performing the audit or review of the general purpose financial statements.
- 8.29 To satisfy the disclosure requirements in paragraph 8.2(b)(iii), the entity shall:**
- (a) describe the nature of each type of taxation service; and
 - (b) disclose the total fees for each type of taxation service.

³ This will include specified engagements required under the Financial Markets Conduct Act 2013 to be performed by a qualified assurance practitioner.

⁴ These assurance services may be required to satisfy regulatory requirements or may have been authorised by those charged with governance to give an additional level of comfort than that provided by the financial statement audit or review engagement.

⁵ Other related entities include for example (a) retirement benefit plans managed by the reporting entity to provide employee benefits; and (b) investment schemes where the entity is the scheme manager.

DISCLOSURE OF FEES PAID TO AUDIT FIRMS
(AMENDMENTS TO FRS-44)

8.30 Examples of types of taxation services include:⁶

- (a) tax return preparation;
- (b) tax calculations to prepare accounting entries;
- (c) tax planning and other tax advisory services;
- (d) tax services involving valuations; and
- (e) assistance in the resolution of tax disputes.

*8.31 When fees for taxation services are incurred, an entity shall disclose information about how it identifies, evaluates, and mitigates the possible threats to auditor or reviewer independence that might arise from the provision of taxation services by the audit or review firm.

Other services

8.32 Other services include any other services provided by the audit or review firm other than the services classified under categories 8.2(a) and 8.2(i) –(iii).

8.33 To satisfy the disclosure requirements in paragraph 8.2(b)(iv), the entity shall:

- (a) describe the nature of each type of other service; and**
- (b) disclose the total fees for each type of other service.**

8.34 Examples of types of other services include:⁷

- (a) accounting and bookkeeping;
- (b) administration;
- (c) valuations (including actuarial valuations);
- (d) internal audit;
- (e) information technology (including financial information systems);
- (f) litigation support;
- (g) legal;
- (h) recruitment and remuneration;
- (i) corporate finance and restructuring; and
- (j) business acquisition due diligence.

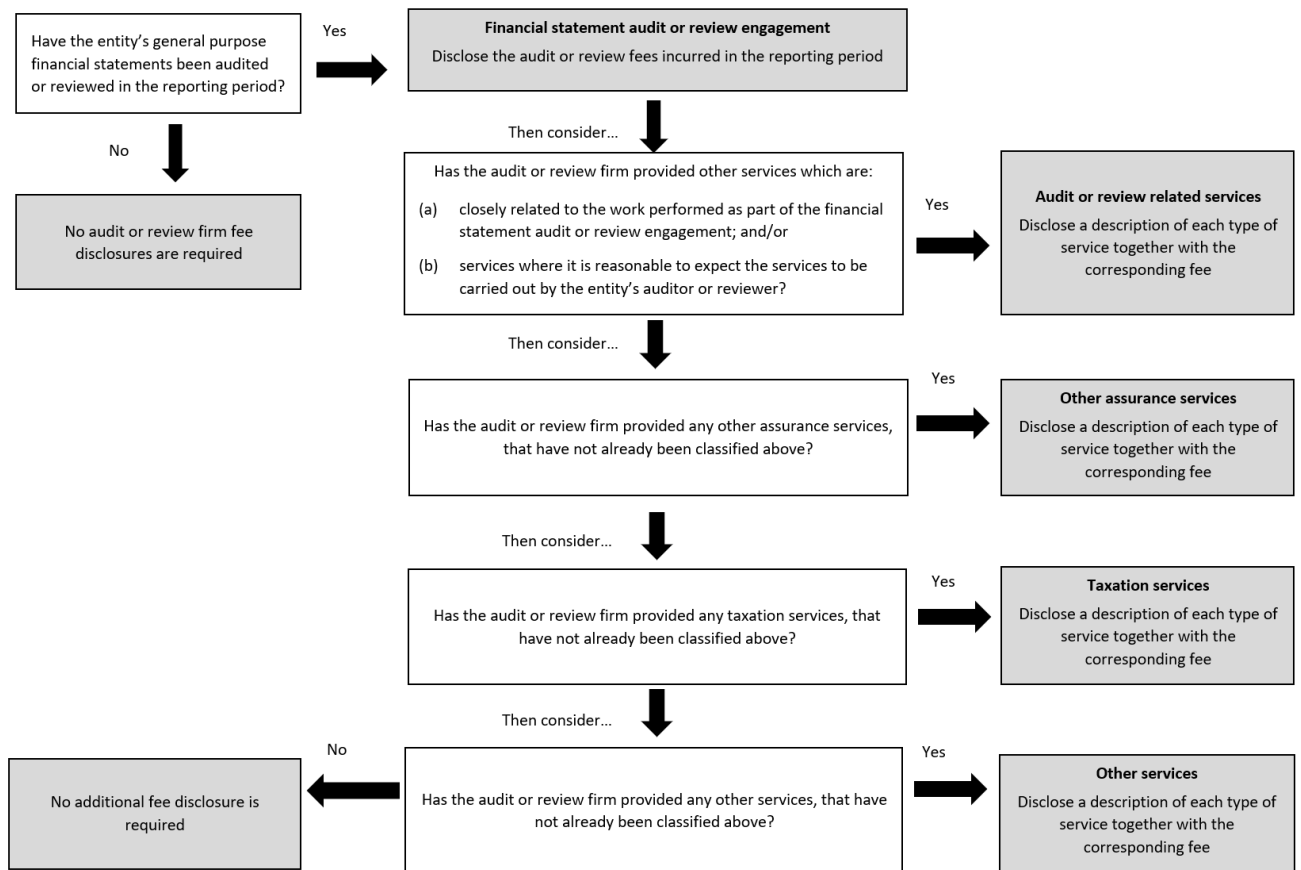
*8.35 When fees for other services are incurred, an entity shall disclose information about how it identifies, evaluates, and mitigates the possible threats to auditor or reviewer independence that might arise from the provision of the other services by the audit or review firm.

⁶ PES 1 *Professional and Ethical Standard 1*, as applied by auditors and other assurance practitioners, include requirements that prohibit a firm and network firm from providing certain tax services to audit or review clients in certain circumstances because the threats created to auditor independence cannot be addressed by applying safeguards.

⁷ PES 1, as applied by auditors and other assurance practitioners, describes the types of threats to auditor independence that might be created by the provision of other services by the audit or review firm. In certain circumstances and for specific types of services, PES 1 expressly prohibits a firm or network firm from providing other services to an audit or review client because the threats created cannot be addressed by applying safeguards.

DISCLOSURE OF FEES PAID TO AUDIT FIRMS
(AMENDMENTS TO FRS-44)

Application of disclosure requirements



...

Effective date

...

21 *Disclosure of Fees Paid to Audit Firms*, issued in [date], amended paragraphs 8.1 and 8.2 and the preceding heading and added paragraphs 8.3–8.35 and the related headings. An entity shall apply those amendments for annual periods ending on or after [date]. Earlier application is permitted.

Part D – Effective Date

This [draft] Standard shall be applied for annual financial statements covering periods beginning on or after [date]. Earlier application is permitted.



NZASB EXPOSURE DRAFT 2022-X

Disclosure of Fees Paid to Audit Firms

Issued [Date]

This [draft]¹ Standard was issued on [Date] by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This [draft] 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 [Date].

Reporting entities that are subject to this [draft] Standard are required to apply it in accordance with the effective date, which is set out in Part D.

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

This [draft] Tier 1 and Tier 2 PBE Standard requires an entity to describe the services provided by the audit firm and to disclose the fees paid by the entity for those services.

¹ References to “this Standard” throughout this Exposure Draft should be read as referring to “this draft Standard”.

DISCLOSURE OF FEES PAID TO AUDIT FIRMS
(AMENDMENTS TO PBE IPSAS 1)

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DISCLOSURE OF FEES PAID TO AUDIT FIRMS
(AMENDMENTS TO PBE IPSAS 1)

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Part A – Introduction

This Standard sets out amendments to PBE IPSAS 1 *Presentation Financial Reports*. The amendments require an entity to describe the services provided by the audit firm and to disclose the fees paid by the entity for those services.

Tier 2 entities are required to comply with all the requirements in this Standard, except for paragraphs in this Standard denoted with an asterisk (*)

Part B – Scope

This Standard applies to Tier 1 and Tier 2 public benefit entities.

Part C – Amendments to PBE IPSAS 1 *Presentation of Financial Reports*

The existing paragraphs 116.1 and 116.2 on fees paid to auditors have been replaced, with the deleted text struck through.

The new paragraphs 116.1 to 116.35 (and the related headings) have been added. For ease of reading, new text is not underlined.

Statement of Comprehensive Revenue and Expense

...

Information to be Presented either on the Face of the Statement of Comprehensive Revenue and Expense or in the Notes

...

~~*116.1 An entity shall disclose fees to each auditor or reviewer, including any network firm², separately for:~~

~~_____ (a) The audit or review of the financial report; 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.~~

² Network firm is discussed in Professional and Ethical Standard (PES) 1 (Revised) Ethical Standards for Assurance Practitioners.

Fees paid to audit firms

- 116.1 The objective of this disclosure is to provide information that enables users of general purpose financial reports to understand and consider the total fees incurred in the reporting period for:
- (a) the audit or review of the entity's general purpose financial reports;³ and
 - (b) each other type of service provided by the entity's audit or review firm.
- 116.2 An entity shall disclose the fees incurred for services received from each audit or review firm⁴, separately for:**
- (a) the audit or review of the financial reports (see paragraph 116.10 – 116.17);**
 - (b) each type of other service performed by the entity's audit or review firm during the reporting period, using the following categories:**
 - (i) audit or review related services (see paragraph 116.18 – 116.23);**
 - (ii) other assurance services (see paragraph 116.24 – 116.28);**
 - (iii) taxation services (see paragraph 116.29 – 116.32); and**
 - (iv) other services (see paragraph 116.33 – 116.36).**
- 116.3 Paragraph 116.2 requires the separate disclosure (under specified categories) of the fees incurred for services received from:
- (a) the entity's audit or review firm; and
 - (b) each other audit or review firm involved in any element of the audit or review of the entity's financial reports, including the controlled entities' financial reports when consolidated financial reports are presented.
- 116.4 For public sector entities, the 'audit or review firm' will be the Controller and Auditor-General. When applying paragraph 116.2, the fees incurred will include fees for services performed by any audit or review firm who completes the financial report audit or review engagement on behalf of the Controller and Auditor-General.⁵
- 116.5 The disclosure of the fees 'incurred' for services received from each audit or review firm will be based on the amount of fees expensed (and/or capitalised) by the entity during the reporting period. The fee will include any disbursements incurred in connection with providing the services (such as travel and accommodation costs).
- 116.6 The disclosure of fees incurred for other services in accordance with paragraph 116.2(b), is only required when the firm has performed (or is performing) a financial report audit or review engagement. For public sector entities this will include all services received from service providers involved in completing the financial statement audit or review engagement on behalf of the Controller and Auditor-General.
- 116.7 The descriptions used in this Standard for an '*audit engagement*', a '*review engagement*', and an '*assurance engagement*', are based on the definitions of these terms as used in the professional and ethical standards issued by the New Zealand Auditing and Assurance Standards Board (NZAuASB).

³ The entity's general purpose financial reports comprise of the financial statements and, where required, service performance information prepared in accordance with PBE FRS 48 *Service Performance Reporting*.

⁴ An 'audit or review firm' is defined as a sole practitioner, partnership or corporation or other entity undertaking the audit or review of the general purpose financial reports. "Firm" should be read as referring to its public sector equivalents where relevant. The audit or review firm includes any network firms who provided services during the period. A 'Network firm' is defined as an audit or review firm or entity that belongs to a network. A 'network' is a larger structure:

- (a) That is aimed at cooperation, and
- (b) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.

⁵ Public sector entities are public entities as defined in the Public Audit Act 2001, and all Offices of Parliament.

DISCLOSURE OF FEES PAID TO AUDIT FIRMS
(AMENDMENTS TO PBE IPSAS 1)

- 116.8 An entity need not provide the separate disclosure of the fee for each type of other service, as required by paragraph 116.2(b) if the information resulting from the separate disclosure is not considered material. Materiality considerations should be based on both the monetary amount of the fees and the nature of the services. An entity is required to apply materiality judgements when making decisions about what information to disclose.
- 116.9 When an entity incurs a single fee for a bundle of services from its audit or review firm, the entity shall, when practical allocate the fee to each different type of service to meet the disclosure objective in paragraph 116.1. The fee allocation shall be based on the estimated amount of the stand-alone fee for each service as a proportion of the single fee amount. Where such a fee allocation is not practical this shall be disclosed.

Audit or review of the financial reports

- 116.10 Fees for the audit or review of the financial reports refer to the audit or review of the entity's general purpose financial reports, as presented in accordance with this standard or PBE IAS 34 *Interim Financial Reporting*. For public benefit entities this will include:
- (a) A complete set of financial statements; and
 - (b) Service performance information in accordance with PBE FRS 48, where this is required to be reported.
- 116.11 A financial report *audit engagement* is a reasonable assurance engagement where an assurance practitioner expresses an opinion on whether the historical financial reports are prepared, in all material respects, in accordance with an applicable financial reporting framework. A financial report audit engagement is conducted in accordance with applicable auditing and assurance standards.
- 116.12 A financial report *review engagement* is a limited assurance engagement where an assurance practitioner provides a conclusion as to whether anything has come to their attention to indicate that the historical financial reports have not been prepared, in all material respects, in accordance with an applicable financial reporting framework. A financial report review engagement is conducted in accordance with applicable auditing and assurance standards.
- 116.13 The total fees for the audit or review of the financial reports include all the services performed by the auditor as required to enable them to issue an audit opinion or review conclusion on the financial reports and provide other required communications to those charged with governance as part of the audit or review engagement.
- 116.14 The total fees under this category include work performed in relation to the:
- (a) annual financial report audit or review engagement; and
 - (b) interim financial report audit or review engagement (if applicable).
- 116.15 The total fees under this category also include, when consolidated financial reports are presented, any fees incurred for the audit or review of the financial reports of the entity's controlled entities. The total fees disclosed under this category will include any additional fees incurred as a result of issuing an audit opinion or review conclusion on the financial reports of the controlled entities.
- 116.16 Examples of services, the fees for which should be included in this category include:
- (a) Attendance at audit committee meetings, board meetings, or annual general meetings for the purpose of discussing matters arising as a result of the financial report audit or review engagement.
 - (b) Discussions with management about audit or accounting matters that arise during or as a result of the financial report audit or review engagement.
 - (c) Preparation of a "management letter" to those charged with governance to report on the outcomes of the financial report audit or review engagement, including advice and recommendations to improve the internal control environment.
 - (d) Time incurred in connection with the audit or review of the income tax accrual or deferred tax balances as reported in the financial reports.

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- 116.17 Examples of services, the fees for which should not be included in this category include:
- (a) Internal control advisory services outside the scope of the audit or review engagement.
 - (b) Consulting engagements regarding the implementation of new accounting standards and reporting requirements.
 - (c) Internal audit services.
 - (d) Risk management advisory services.
 - (e) Due diligence procedures performed in connection with merger and acquisition procedures.
 - (f) Income tax services other than those directly related to the audit or review of the income tax accrual as reported in the financial reports.

Audit or review related services

- 116.18 Fees for audit or review related services include services which are:
- (a) closely related to the work performed as part of the financial report audit or review engagement, but which are not required to complete the audit or review engagement described in paragraphs 116.10 – 116.17; and/or
 - (b) services where it is reasonable to expect the services to be carried out by the entity's auditor or reviewer.
- 116.19 Audit or review related services include those services that are largely carried out by members of the financial report audit or review engagement team and generally rely significantly on synergies in knowledge gained from undertaking the financial report audit or review engagement. There are often benefits for the entity when the auditor or reviewer performs certain audit-related services from an efficiency and effectiveness perspective, the provision of which will generally not create a self-review threat to auditor independence.
- 16.20 Audit or review related services also include services which are required by legislation or regulation to be performed by a suitably qualified auditor or assurance practitioner, when the services are closely related to the work performed as part of the financial report audit or review engagement and/or where it is reasonable to expect the services to be carried out by the auditor or reviewer of the entity's financial reports.⁶

116.21 To satisfy the disclosure requirements in paragraph 116.2(b)(i), the entity shall:

- (a) describe the nature of each type of audit or review related service; and**
- (b) disclose the total fees for each type of audit or review related service.**

116.22 Examples of types of audit or review-related services include engagements concerning:

- (a) summary financial reports;
- (b) forecast financial reports;
- (c) reporting on whether processes, procedures, and controls relating to the financial reporting system are suitably designed and operating effectively;⁷
- (d) compliance with banking covenants; and
- (e) reporting satisfaction of grant obligations.

116.23 Audit or review-related services will also include other financial report audit or review fees incurred and borne by the entity concerning the entity's associates, joint ventures, and other related entities.⁸

⁶ This will include specified engagements required under the Financial Markets Conduct Act 2013 to be performed by a qualified assurance practitioner.

⁷ These assurance services may be required to satisfy regulatory requirements or may have been authorised by those charged with governance to give an additional level of comfort than that provided by the financial report audit or review engagement.

⁸ Other related entities include for example (a) retirement benefit plans managed by the reporting entity to provide employee benefits; and (b) investment schemes where the entity is the scheme manager.

Other assurance services

116.24 Other assurance services include any assurance service provided by an audit or review firm which have not been classified under categories 116.2(a) or 116.2(b)(i).

116.25 An *assurance service* involves an independent assurance practitioner evaluating information against certain criteria and expressing a conclusion about the information as a result of this evaluation, with a view to enhance the confidence of the intended users of this conclusion. Assurance engagements are conducted in accordance with applicable assurance standards.

116.26 This category includes assurance services that do not rely significantly on synergies in knowledge gained from undertaking the financial report audit or review engagement.

116.27 To satisfy the disclosure requirements in paragraph 116.2(b)(ii), the entity shall:

(a) describe the nature of each type of other assurance service; and

(b) disclose the total fees for each type of other assurance service.

116.28 Examples of types of other assurance services include assurance engagements on:

(a) greenhouse gas statements or other sustainability reports;

(b) adherence to cyber/cloud security procedures; and

(c) other regulatory assurance engagements which are not considered to be audit or review related services.

Taxation services

116.29 Taxation services comprise non-audit and non-assurance services relating to ascertaining the entity's tax liabilities (or entitlements) or satisfying other obligations under taxation law. This category excludes the review of tax balances or disclosures as part of performing the audit or review of the general purpose financial reports.

116.30 To satisfy the disclosure requirements in paragraph 116.2(b)(iii), the entity shall:

(a) describe the nature of each type of taxation service; and

(b) disclose the total fees for each type of taxation service.

116.31 Examples of types of taxation services include:⁹

(a) tax return preparation;

(b) tax calculations to prepare accounting entries;

(c) tax planning and other tax advisory services;

(d) tax services involving valuations; and

(e) assistance in the resolution of tax disputes.

*116.32 When fees for taxation services are incurred, an entity shall disclose information about how it identifies, evaluates, and mitigates the possible threats to auditor or reviewer independence that might arise from the provision of taxation services by the audit or review firm.

Other services

116.33 Other services include any other services provided by the audit or review firm other than the services classified under categories 116.2(a) and 116.2(i)–(iii).

116.34 To satisfy the disclosure requirements in paragraph 116.2(b)(iv), the entity shall:

(a) describe the nature of each type of other service; and

(b) disclose the total fees for each type of other service.

⁹ PES 1 *Professional and Ethical Standard 1*, as applied by auditors and other assurance practitioners, include requirements that prohibit a firm and network firm from providing certain tax services to audit or review clients in certain circumstances because the threats created to auditor independence cannot be addressed by applying safeguards.

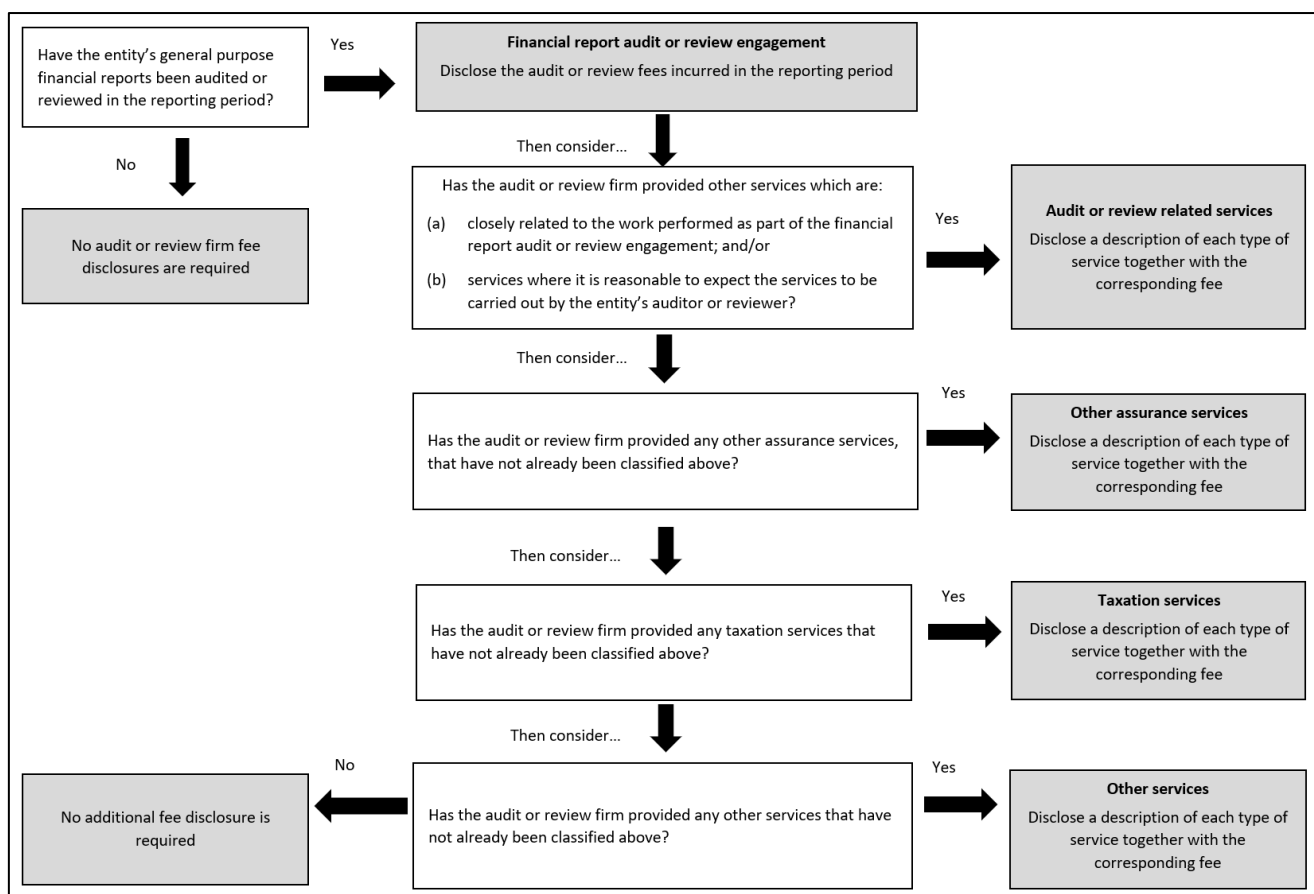
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116.35 Examples of types of other services include:¹⁰

- (a) accounting and bookkeeping;
- (b) administration;
- (c) valuations (including actuarial valuations);
- (d) internal audit;
- (e) information technology (including financial information systems);
- (f) litigation support;
- (g) legal;
- (h) recruitment and remuneration;
- (i) corporate finance and restructuring; and
- (j) business acquisition due diligence.

*116.36 When fees for other services are disclosed, an entity shall disclose information about how it identifies, evaluates, and mitigates the possible threats to auditor or reviewer independence that might arise from the provision of the other services by the audit or review firm.

Application of disclosure requirements



¹⁰ PES 1, as applied by auditors and other assurance practitioners, describes the types of threats to auditor independence that might be created by the provision of other services by the audit or review firm. In certain circumstances and for specific types of services, PES 1 expressly prohibits a firm or network firm from providing other services to an audit or review client because the threats created cannot be addressed by applying safeguards.

...

Effective date

...

- 154.14 *Disclosure of Fees Paid to Audit Firms*, issued in [date], amended paragraphs 116.1 and 116.2, added a heading above paragraph 116.1 and added paragraphs 116.3–116.36 and the related headings. An entity shall apply those amendments for annual financial statements covering periods beginning on or [date]. Earlier application is permitted.

Part D – Effective Date

This [draft] Standard shall be applied for annual financial statements covering periods beginning on or after [date]. Earlier application is permitted.