

## NZASB Exposure Draft 2022-9

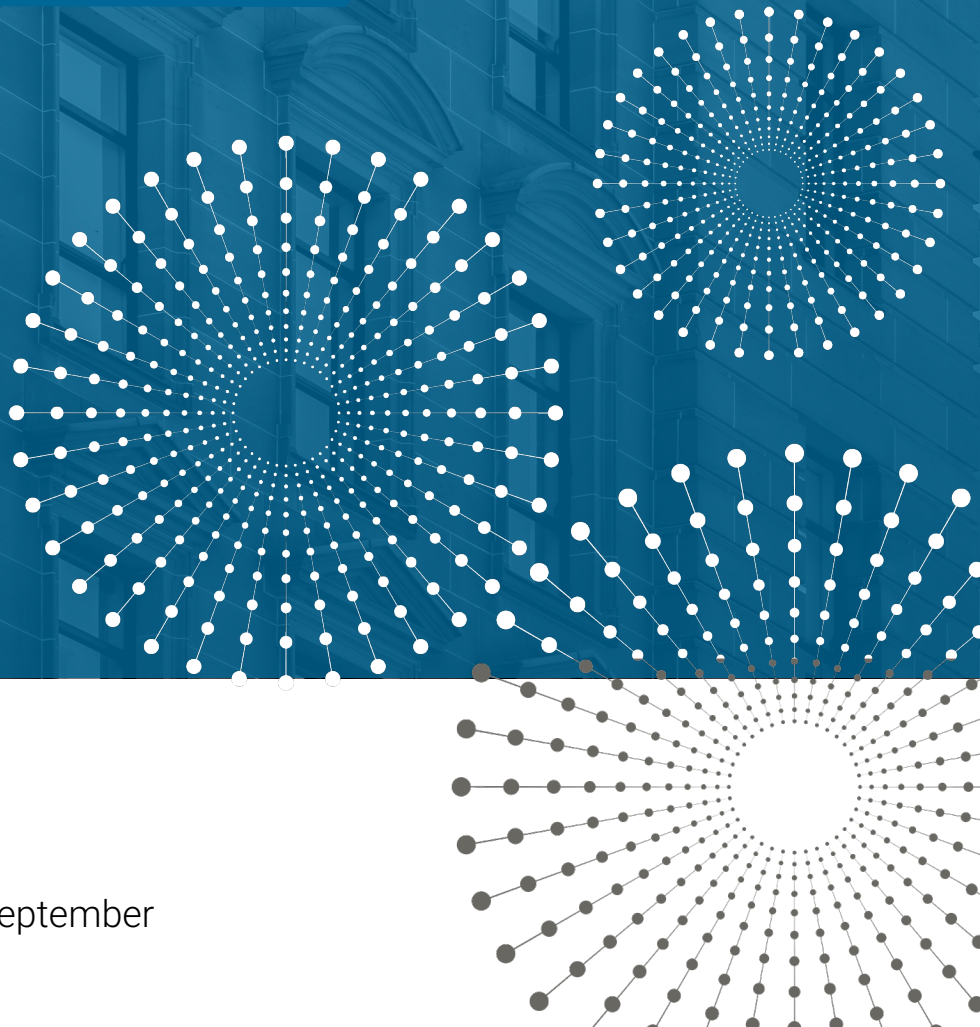
# Disclosure of fees paid to audit firms

Proposed amendments to FRS-44 *New Zealand Additional Disclosures*

Tier 1 and Tier 2 For-profit Accounting Standards

June 2022

Comment period closes 30 September





# Contents

<b>1.</b>	<b>What is this consultation about?</b>	<b>3</b>
<hr/>		
<b>2.</b>	<b>How to provide feedback</b>	<b>4</b>
<hr/>		
<b>3.</b>	<b>Consultation questions</b>	<b>5</b>
<hr/>		
<b>4.</b>	<b>Overview of proposals</b>	
4.1.	Current disclosure requirements	6
<hr/>		
4.2.	Proposed enhanced disclosure requirements	7
<hr/>		
4.3.	Tans-Tasman harmonisation	9
<hr/>		
4.4.	Reduced disclosure regime	10
<hr/>		
4.5.	Effective date and other comments	10
<hr/>		
<b>5.</b>	<b>Application of proposed disclosure requirement</b>	<b>11</b>



# 1.

## What is this consultation about?

Information about fees incurred for services provided by an entity's audit or review firm is a disclosure of high interest to users of the entity's financial statements. The extent to which an entity's audit or review firm provides other services, in addition to the financial statement audit or review, is often seen as an indicator of possible threats to auditor or reviewer independence.

### Purpose of consultation

The purpose of this consultation and accompanying ED is to seek feedback on proposed amendments to FRS-44 *New Zealand Additional Disclosures*.

The amendments propose enhanced disclosure requirements about the fees incurred by the reporting entity during the reporting period for:

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

### FRS-44 New Zealand Additional Disclosures

FRS-44 is a domestic accounting standard applied by Tier 1 and Tier 2 for-profit entities, that prescribes New Zealand specific disclosures in addition to those required under IFRS equivalent standards. The standard therefore includes disclosure requirements of specific interest to users of general purpose financial statements in New Zealand.

One of the disclosure requirements in FRS-44 which is often of high interest to users, is the disclosure of fees paid to each audit or review firm who has been involved in the audit or review of the financial statements.

### Objective of proposed amendments

The objective of the amendments is to improve the consistency and transparency of information disclosed about fees paid to an entity's audit or review firm for different types of services.

The proposed disclosure requirements are intended to provide information that will assist users of general purpose financial statements to assess the extent to which non-audit services have been provided by the entity's audit or review firm in the reporting period.

The amendments have been developed in response to concerns highlighted by key stakeholders about the inadequacy of and inconsistencies of disclosures about fees paid to audit or review firms based on the application of existing disclosure requirements.

The proposed disclosure requirements complement recent developments in relation to professional and ethical standards as applied by auditors and other assurance practitioners.

The proposed amendments are reflected in the accompanying [Exposure Draft](#) (ED).

### Summary of proposed amendments

The proposed amendments build on the existing disclosure requirements in FRS-44 and introduce a requirement for an entity to disclose the fees incurred for services received from their audit or review firm using specified categories.

Proposed fee categories:

- (a) Audit or review of the financial statements
- (b) Other non-audit or review services:
  - (i) Audit or review related services
  - (ii) Other assurance services
  - (iii) Taxation services
  - (iv) Other services

Under each category of other non-audit or review services, it is proposed that the entity shall provide a description of each type of service received and the corresponding fees incurred for the reporting period.



# 2.

## How to provide feedback?

### Responding to consultation questions

We are seeking comments on the questions on the next page. We will consider all comments received before finalising the proposed enhanced disclosure requirements.

Please feel free to comment on any or all of the questions or any part of the proposed amendments .

We appreciate both formal and informal comments, whether supportive or critical, as both supportive and critical comments are essential for us to reach a balanced view.

### Making a submission

You can provide feedback to us via:

- the [consultation page](#) on our website (where you can upload a PDF or complete an online form); or
- emailing your formal or informal comments to [accounting@xrb.govt.nz](mailto:accounting@xrb.govt.nz).

The consultation closes on **30 September 2022**.

We will put all written submissions on our website unless advised otherwise, and we reserve the right not to publish defamatory submissions.





# 3.

## Consultation questions

### General disclosure requirement

1. Do you agree with the proposal to require the disclosure of fees incurred for services received from each audit or review firm, using specified categories as specified in paragraph 8.3 of the ED?

### Description of categories and related guidance

2. Do you agree with the proposed description and guidance for services that would be disclosed under the category *audit or review of the financial statements* (ED paragraphs 8.9 – 8.16)?
3. Do you agree with the proposed description and guidance for services that would be disclosed under the category *audit or review related services* (ED paragraphs 8.17 – 8.22)?
4. Do you agree with the proposed description and guidance for services that would be disclosed under the category *other assurance services* (ED paragraphs 8.23 – 8.27)?
5. Do you agree with the proposed description and guidance for services that would be disclosed under the category *taxation services* (ED paragraphs 8.28 – 8.31)?
6. Do you agree with the proposed description and guidance for services that would be disclosed under the category *other services* (ED paragraphs 8.32 – 8.35)?

### Disclosure about managing possible threats to auditor or reviewer independence

7. Do you agree with the proposal that when an entity incurs fees for *taxation services* or *other services* it 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 these services (ED paragraphs 8.31 and 8.35)?

### Reduced disclosure regime

8. Do you agree that, except for the disclosure requirements in ED paragraphs 8.31 and 8.35, there should be no other disclosure concession for Tier 2 entities?

### Effective date

9. Do you agree to an effective date of accounting periods commencing on or after 1 January 2024 (with earlier adoption permitted)?

### Other comments

10. Do you have any other comments on the proposed enhanced disclosure requirements in the accompanying ED?



# 4.

## Overview of proposed amendments

### 4.1 Current disclosure requirements

The current requirements for for-profit entities to disclose the fees incurred for financial statement audit or review services and other services provided by an entity's audit or review firm are currently provided for in FRS-44 and the Companies Act 1993.

Over recent years there has been a call from regulators and other key stakeholders for these requirements to be enhanced to improve the consistency and transparency of information disclosed about other services provided by an entity's audit or review firm.

#### FRS 44 New Zealand Additional Disclosures

- \*8.1 An entity shall disclose fees to each auditor 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.
- \* Tier 2 for-profit entities are currently provided with a disclosure exemption for both these paragraphs.

#### Companies Act

Section 211 of the Act provides that every annual report for a company must 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.

A company that is required to include group financial statements in its annual report must include, in relation to its subsidiaries, the same information as above.

The annual report of a company need not comply with these requirements if shareholders who together hold at least 95% of the voting shares agree that the annual report need not do so.

#### FMA Guidance

The Financial Markets Authority (FMA) has issued [guidance material](#) to encourage the consistent application of FRS-44. The FMA have highlighted the need to clearly distinguish between fees paid for the financial statement audit or review and other services.

The FMA guidance material encourages the use of additional categories to explain the different types of services an entity has received from its audit or review firm. The categories included in FMA best practice examples are:

- (a) Audit or review of financial statements
- (b) Other services
  - (i) Regulatory audit work
  - (ii) Other assurance services
  - (iii) Tax services
  - (iv) Other services



## 4.2 Proposed enhanced disclosure requirements

The proposed enhanced audit fee disclosure requires an entity to disclose information about the fees incurred in the reporting period for:

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

The 'fees incurred' include all fees arising from the provision of services by the entity's audit or review firm that the entity has expensed (or capitalised) in the reporting period. For a Group, this will include any fees incurred for services provided by the audit or review firm of the subsidiary entities.

### Paragraph 8.3 of the ED provides the core proposed disclosure requirements

- 8.3 An entity shall disclose the fees incurred for services received from each audit or review firm, separately for:
- (a) the audit or review of the financial statements;
  - (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;
    - (ii) other assurance services;
    - (iii) taxation services; and
    - (iv) other services.

To satisfy the disclosure requirements in paragraph 8.3 (b), an entity is required under each category to:

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

### Objective of the proposed disclosure

The objective of the proposed enhanced disclosure is to provide information that will assist users of general purpose financial statements to assess the extent to which non-audit services have been provided by the entity's audit or review firm in the reporting period.

The NZASB acknowledged that the enhanced disclosure would not provide users with all the information necessary to enable them to assess auditor independence, but nevertheless information about the non-audit services provided by an entity's audit or review firm was an important disclosure. Ultimately, those charged with governance have the primary responsibility for assessing auditor independence based on a range of factors. Auditors and other assurance practitioners are required to consider applicable professional and ethical standards when accepting assurance engagements based in independence considerations.

### Question

- Q1 Do you agree with the proposal to require the disclosure of fees incurred for services received from each audit or review firm, using specified categories as specified in paragraph 8.3 of the ED?



## 4.2 Proposed enhanced disclosure requirements

### Questions

- Q2 Do you agree with the proposed description and related guidance for services that would be disclosed under the category *audit or review of the financial statements* (ED paragraphs 8.9 – 8.16)?
- Q3 Do you agree with the proposed description and related guidance for services that would be disclosed under the category *audit or review related services* (ED paragraphs 8.17 – 8.22)?
- Q4 Do you agree with the proposed description and guidance for services that would be disclosed under the category *other assurance services* (ED paragraphs 8.23 – 8.27)?
- Q5 Do you agree with the proposed description and guidance for services that would be disclosed under the category *taxation services* (ED paragraphs 8.28 – 8.31)?
- Q6 Do you agree with the proposed description and guidance for services that would be disclosed under the category *other services* (ED paragraphs 8.32 – 8.35)?

### Disclosure about managing possible threats to auditor or reviewer independence

During the development of the proposed enhanced disclosures, key stakeholders recommended that additional disclosures be required about how an entity manages the possible risks to auditor or reviewer independence when either taxation or other services are provided by the entity's audit or review firm.

In response the ED includes the following additional disclosure requirements.

- 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 taxation 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.

### Question

- Q7 Do you agree with the proposed additional disclosure requirements in paragraphs 8.31 and 8.35 of the ED?





## 4.3 Trans-Tasman harmonisation

New Zealand and Australia both have a policy of developing consistent accounting standards to reduce the costs for entities operating on a Trans-Tasman basis, to the extent appropriate to meet user needs in both countries – described as a policy of harmonisation.

### The Australian position

The Australian Accounting Standards Board (AASB) has an ongoing project on *Auditor Remuneration* which is considering the introduction of similar enhanced disclosure requirements as discussed in this consultation.

#### PJC Report

The AASB's project on *Auditor Remuneration* is largely in response to the Australian Parliamentary Joint Committee (PJC) Report [Regulation of Auditing in Australia](#), published in November 2020.

The PJC Report included recommendations to improve confidence and quality in audit services in Australia, including a recommendation for defined categories and associated fee disclosure requirements in relation to audit and non-audit services to be established.

#### AASB Research Report

In December 2020, the AASB published Research Report 15 [Review of Auditor Remuneration Disclosure Requirements](#). The Research Report considered possible bases for improving the disclosure requirements of fees paid to audit firms. This report included a review of disclosure requirements in other jurisdictions.

The Research Report explored different approaches to improve the quality of disclosures in Australia. One of the approaches was to introduce specified categories for the disclosure of 'non-audit services'. Under this approach the specified categories identified by the report were:

- (a) Audit services;
- (b) Audit-related services;
- (c) Other assurance services;
- (d) Taxation services; and
- (e) All other 'non-audit' services.

The recommended categories are similar to those proposed in this New Zealand consultation and are also consistent with categories recommended by the Australian Accounting Professional & Ethical Standards Board (APESB).

#### AASB Project

The AASB has temporarily paused their *Auditor Remuneration* project while they wait for a response from the Australian Federal Government to the PJC Report. Subject to the Federal Government's response, the AASB is expecting to issue an exposure draft on this topic in a future period.

### The New Zealand position

In December 2021 the NZASB agreed to develop and issue proposed amendments to FRS-44 concerning fees paid to audit firms ahead of the AASB.

This decision was based on the uncertainty concerning when the AASB would be in a position to finalise their proposals and the need to respond to calls for improved disclosures from New Zealand stakeholders. The NZASB acknowledged the intention to harmonise the enhanced disclosure requirements with Australia in the future.





## 4.4 Reduced disclosure regime

The NZASB is of the view that in general, 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.

It is therefore proposed that no disclosure concessions be provided for Tier 2 for-profit entities except for those noted below.

### Proposed Tier 2 concessions

- \*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 taxation 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.

### Question

- Q8 Do you agree that, except for the disclosure requirements in ED paragraphs 8.31 and 8.35, there should be no other disclosure concession for Tier 2 entities?

## 4.5 Effective date and other comments

It is proposed that the enhanced disclosure requirements have an effective date of accounting periods commencing on or after 1 January 2024 (with earlier adoption permitted).

### Question

- Q9 Do you agree to an effective date of accounting periods commencing on or after 1 January 2024 (with earlier adoption permitted)?
- Q10 Do you have any other comments on the proposed enhanced disclosure requirements in the accompanying ED?



# 5.

## Application of the proposed disclosure requirements

The ED includes the following flowchart to illustrate how the proposed enhanced disclosures would be applied.

### Fees paid to audit or review firms

