

NZASB Exposure Draft 2022-10

Disclosure of fees paid to audit firms

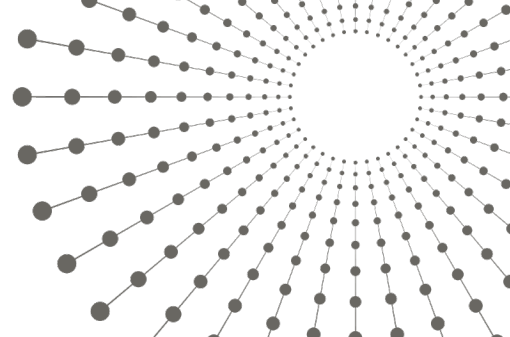
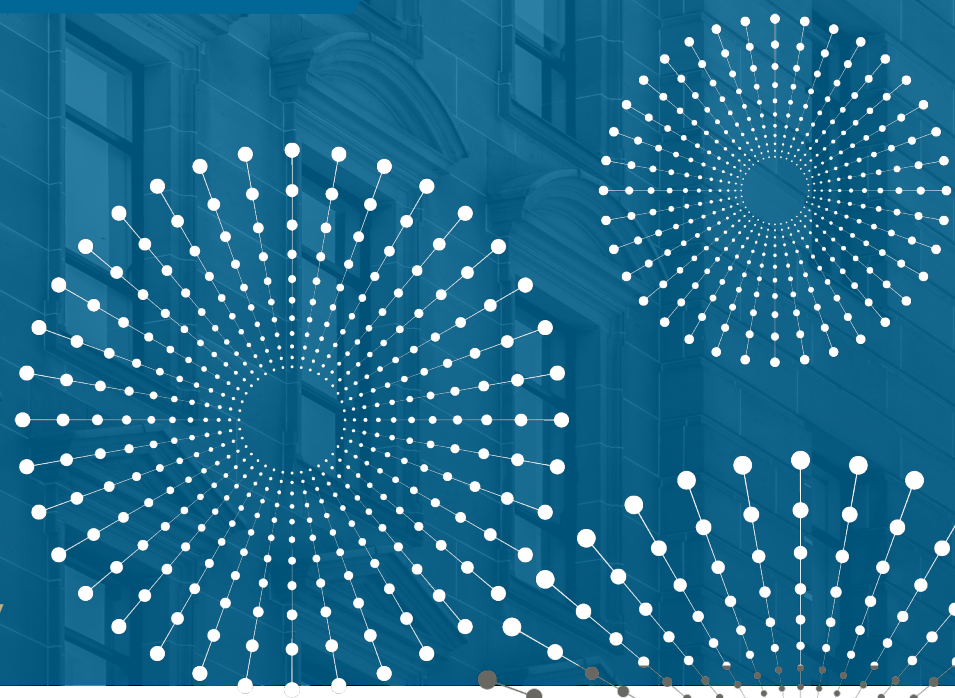
Proposed amendments to PBE IPSAS 1 *Presentation of Financial Reports*

Tier 1 and Tier 2 PBE Accounting Standards



June 2022

Comment period closes 30 September





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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 an 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 PBE IPSAS 1 *Presentation of Financial Reports*.

The amendments propose to introduce 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.

PBE IPSAS 1 *Presentation of Financial Reports*

PBE IPSAS 1 is an accounting standard applied by Tier 1 and Tier 2 public benefit entities (PBEs) in both the not-for-profit (NFP) and public sectors.

The Standard includes prescribe the manner in which general purpose financial reports, comprising financial statements and where required, service performance information should be presented to ensure comparable, relevant, and useful information is presented.

PBE IPSAS 1 currently includes minimal disclosure requirements concerning fees paid to audit firms.

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 reports 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 PBE IPSAS 1 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 reports
- (b) 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.

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 116.3 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 reports* (ED paragraphs 116.11 – 116.18)?
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 116.19 – 116.24)?
4. Do you agree with the proposed description and guidance for services that would be disclosed under the category *other assurance services* (ED paragraphs 116.25 – 116.29)?
5. Do you agree with the proposed description and guidance for services that would be disclosed under the category *taxation services* (ED paragraphs 116.30 – 116.33)?
6. Do you agree with the proposed description and guidance for services that would be disclosed under the category *other services* (ED paragraphs 116.34 – 116.37)?

Disclosure about managing possible threats to auditor or reviewer independence

7. Do you agree with the proposal that when a Tier 1 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 116.33 and 116.37)?

Reduced disclosure regime

8. Do you agree that, except for the disclosure requirements in ED paragraphs 116.33 and 116.37, 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 PBE entities to disclose the fees incurred for financial report audit or review services and other services provided by an entity's audit or review firm are currently provided for in PBE IPSAS 1 *Presentation of Financial Reports*.

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.

PBE IPSAS 1 Presentation of Financial Reports

*116.1 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.

*116.2 To comply with 116.1 above, an entity shall describe the nature of other services.

* Tier 2 PBE entities are currently provided with a disclosure exemption for both these paragraphs.

FMA Guidance

The Financial Markets Authority (FMA) has issued [guidance material](#) to encourage the consistent application of equivalent disclosure requirements for for-profit entities. The FMA have highlighted the need to clearly distinguish between fees paid for the financial statement audit or review and other services provided by an entity's audit or review firm.

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 116.3 of the ED provides the core proposed disclosure requirements

116.3 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 reports;
- (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 116.3 (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 will 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 provides for a useful and 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 116.3 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 reports* (ED paragraphs 116.11 – 116.18)?
- 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 116.19 – 116.24)?
- Q4 Do you agree with the proposed description and guidance for services that would be disclosed under the category *other assurance services* (ED paragraphs 116.25 – 116.29)?
- Q5 Do you agree with the proposed description and guidance for services that would be disclosed under the category *taxation services* (ED paragraphs 116.30 – 116.33)?
- Q6 Do you agree with the proposed description and guidance for services that would be disclosed under the category *other services* (ED paragraphs 8.34 – 8.38)?

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 116.33 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 116.37 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 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 PBE financial reports.

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

Proposed Tier 2 concessions

- *Paragraph 116.33 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 116.37 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 116.33 and 116.37, there should be no other disclosure concession for Tier 2 PBE entities?

4.4 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

