

30 September 2022

Carolyn Cordery
Chair, New Zealand Accounting Standards Board
External Reporting Board
PO Box 11250
Manners Street Central
Wellington 6142

Via email: accounting@xrb.govt.nz

Dear Carolyn

Consultation on disclosure of fees paid to audit firms

ED 2022-9, Proposed amendments to FRS-44 New Zealand Additional Disclosures ED 2022-10, Proposed amendments to PBE IPSAS 1 Presentation of Financial Reports

Chartered Accountants Australia and New Zealand (CA ANZ) welcomes the consultation on the Exposure Drafts (“the EDs”) to improve financial statement disclosures of fees paid by the entity to its external audit firm. **Appendix B** provides more information about CA ANZ.

Preserving confidence in audit and auditor independence is one of the key themes of [What we heard: A New Zealand conversation about securing trust in audit](#) – a white paper that documents a CA ANZ led conversation about the future of audit and its interplay with the governance ecosystem. Audit fee disclosures was one of the key points of discussion. Participants raised that stakeholders are sometimes confused by the disclosures and this can lead to the assumption that all the ‘non-audit’ services are consulting, advisory or other types of services that could compromise independence. Auditor independence could also be perceived to be threatened when the non-audit services fees are a significant portion of the total fees charged by the audit firm without clarity on what those fees relate to. Participants suggested that greater disaggregation of the fees paid to the external auditor for ‘non-audit’ services could provide greater clarity.

We support the proposed specified categories of non-audit services but we believe that agreed-upon procedures services should be included in the list of examples of audit or review related services in proposed paragraph 8.21/116.23 to be explicit how such services should be categorised.

We do not support the proposed disclosure about how the entity manages possible threats to auditor or reviewer independence when taxation services or other services are also provided as we believe it potentially poses several issues. We also make several recommendations to streamline the guidance material to reduce its length and complexity.

Appendix A provides our responses to the specific questions raised in the consultation papers. Unless otherwise specified, our comments relate to both the EDs (the Tier 1 and Tier 2 For-profit and Public Benefit Entity Accounting Standards). Should you have any questions about the matters raised in this submission or wish to discuss them further, please contact Zowie Pateman, Deputy Leader – Reporting and Assurance, at Zowie.Pateman@charteredaccountantsanz.com.

Yours sincerely

Simon Grant FCA
Group Executive – Advocacy, Professional Standing
and International Development

Amir Ghandar FCA
Assurance and Reporting Leader
Advocacy and Professional Standing

Appendix A

Responses to specific 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 8.3/116.3 of the ED?**

We support the proposed specified categories, as follows:

- the audit or review of the financial statements;
- audit or review related services;
- other assurance services;
- taxation services; and
- other services.

We support greater disaggregation of the disclosure of fees paid or payable to an entity's external audit firm in its financial statements. We believe this will provide greater transparency around the nature of the non-audit services being provided by the entity's external auditor. In our view the additional clarity will also go a long way to alleviating concerns around perceived compromises to auditor independence.

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 8.9–8.16/116.11–116.18)?**

We support the descriptions used for an 'audit engagement' and a 'review engagement' being 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).

We recommend paragraphs 8.9/116.11 and 8.13/116.15 are consolidated as they are making the same point in two different ways which may cause confusion.

We do not believe that proposed paragraphs 8.15/116.17, which provide examples of services that form part of the financial statement audit or review, are necessary. The financial statement audit/review is the service, the examples in paragraph 8.15/116.17 are specific aspects of the financial statement audit/review, not individual services. Furthermore, this same approach is not taken for any of the other categories of services.

We do not believe that proposed paragraph 8.16/116.8, which provide examples of services that do not form part of the financial statement audit or review, is necessary either. Furthermore, the audit firm might be prohibited under the professional and ethical standards issued by the NZAuASB from providing some of the services mentioned; for example; (b) Consulting engagements regarding the implementation of new accounting standards and reporting requirements; and (c) Internal audit services, which makes their inclusion inappropriate.

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 8.17–8.22/116.19–116.24)?

We are concerned that some entities may categorise agreed-upon procedures services as ‘Other services’ which could be misleading to users who may perceive this category as posing a greater threat to auditor independence, than the other categories. We recommend agreed-upon procedures services be explicitly referred to in the examples of types of audit or review related services in paragraph 8.21/116.23 to eliminate the possibility of inconsistent disclosures emerging.

Agreed-upon procedures services meet the criteria in paragraph 8.17(b)/116.19(b) to be audit or review related services because “it is reasonable to expect such services to be carried out by the entity’s auditor or reviewer”. We are in favour of them being grouped with ‘audit or review related services’ because they are framed as ‘related services’ in the [IAASB’s structure of pronouncements](#) (page 8 of the IAASB Handbook). Similarly, the NZAuASB issues standards for agreed-upon procedures engagements.

On this basis we also support:

- The criteria in paragraph 8.17/116.19 being (a) or (b) as agreed-upon procedures services might not meet the criteria in paragraph 8.17(a)/116.19(a) – “closely related to the work performed as part of the financial statement audit or review engagement”.
- Not limiting audit or review related services to assurance services, because agreed-upon procedures are non-assurance services.

We recommend paragraphs 8.18/116.20 and 8.19/116.21 are consolidated into paragraph 8.17/116.19 as there is an element of duplication which could possibly cause confusion around whether they are additional criteria, or guidance on the criteria.

4. Do you agree with the proposed description and guidance for services that would be disclosed under the category other assurance services (ED paragraphs 8.23–8.27/116.25–116.29)?

We support the descriptions used for an ‘assurance engagement’ being based on the definitions of these terms as used in the professional and ethical standards issued by the NZAuASB.

5. Do you agree with the proposed description and guidance for services that would be disclosed under the category taxation services (ED paragraphs 8.28–8.31/116.30–116.33)?

We support aligning paragraph 8.30/116.32 with paragraph 604.3 A1 in PES 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)*.

6. Do you agree with the proposed description and guidance for services that would be disclosed under the category other services (ED paragraphs 8.32–8.35/116.34–116.37)?

We agree with the proposed description and guidance for services that would be disclosed under the category ‘Other services’.

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 8.31/116.33 and 8.35/116.37)?**

This proposal would represent a substantial step away from the extant requirements and the overall approach to mitigating threats to auditor independence. PES 1, based on the *International Code of Ethics for Professional Accountants (including International Independence Standards)*, considers threats to auditor or reviewer independence, and only allows those services for which the threat can be reduced to an acceptable level using safeguards. Requiring disclosure in the financial statements on identifying, evaluating, and mitigating possible threats to auditor or reviewer independence potentially poses the following issues:

- Confusing users of the financial statements, as there would not be reasonable scope to properly explain this in the context of the Board's oversight of the audit or review engagement and audit quality overall.
- Confusing the role and actions of the Board and those of the auditor in addressing threats to independence.
- Hindering the implementation of the other disclosures which are generally agreed and will improve practice compared to current disclosure.

We recommend proceeding without the requirement for these disclosures at this point, but to carry out further investigation in conjunction with the NZAuASB, company directors and other key stakeholders as to the possible value of greater disclosure by directors with a more fulsome context.

Reduced disclosure regime

- 8. Do you agree that, except for the disclosure requirements in ED paragraphs 8.31/116.33 and 8.35/116.37, there should be no other disclosure concession for Tier 2 entities?**

Please see our response to question 7 above.

Effective date

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

We agree with the proposed effective date.

Other comments

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

We recommend removing proposed paragraph 8.1/116.1 as it just refers to the disclosure requirement in proposed paragraph 8.3/116.3 so is superfluous.

The accompanying ED introduces a 'disclosure objective', which appears to be intended to correspond to a concept explored in the recent IASB [disclosure initiative project](#). We recommend the XRB waits until that IASB project is completed, rather than introducing disclosure objectives now. There has been substantial feedback on the disclosure initiative project and this concept is a fundamental change to the overall approach to disclosure – it is not appropriate for adoption on an ad-hoc basis. While we support the use of overall disclosure objectives within individual standards, proposed paragraph 8.2/116.2 would mean there are two different approaches to disclosure within the same standard, and we do not believe this would be an appropriate outcome.

Is it unclear why the order of proposed paragraphs 8.7/116.10 and 8.8/116.9 is not the same between the For-profit and Public Benefit Entity Accounting Standards.

We recommend incorporating paragraphs 8.20/116.22, 8.26/116.28, 8.29/116.31 and 8.33/116.35 into paragraph 8.3/116.3 to further streamline the requirements, as they are repetitive.

Appendix B

About Chartered Accountants Australia and New Zealand

Chartered Accountants Australia and New Zealand (CA ANZ) represents 131,673 financial professionals, supporting them to make a difference to the businesses, organisations and communities in which they work and live. Chartered Accountants are known as Difference Makers. The depth and breadth of their expertise helps them to see the big picture and chart the best course of action.

CA ANZ promotes the Chartered Accountant (CA) designation and high ethical standards, delivers world-class services and life-long education to members and advocates for the public good. We protect the reputation of the designation by ensuring members continue to comply with a code of ethics, backed by a robust discipline process. We also monitor Chartered Accountants who offer services directly to the public.

Our flagship CA Program, the pathway to becoming a Chartered Accountant, combines rigorous education with mentored practical experience. Ongoing professional development helps members shape business decisions and remain relevant in a changing world.

We actively engage with governments, regulators and standard-setters on behalf of members and the profession to advocate boldly in the public good. Our thought leadership promotes prosperity in Australia and New Zealand.

Our support of the profession extends to affiliations with international accounting organisations. We are a member of the International Federation of Accountants and are connected globally through Chartered Accountants Worldwide and the Global Accounting Alliance. Chartered Accountants Worldwide brings together members of 15 chartered accounting institutes to create a community of more than 1.8 million Chartered Accountants and students in more than 190 countries. CA ANZ is a founding member of the Global Accounting Alliance which is made up of 10 leading accounting bodies that together promote quality services, share information and collaborate on important international issues.

We have a strategic alliance with the Association of Chartered Certified Accountants. The alliance represents more than 870,000 current and next generation accounting professionals across 179 countries and is one of the largest accounting alliances in the world providing the full range of accounting qualifications.

We employ more than 500 talented people across Australia, New Zealand, Singapore, Malaysia, Hong Kong and the United Kingdom.