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Chief Executive
External Reporting Board
PO Box 11250
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Dear April

NZASB Invitation to Comment on NZASB Exposure Draft 2022-9 (ED 2022-9) and NZASB Exposure Draft 2022-10 (ED 2022-10)

We are pleased to comment on the proposals set out in the NZASB Invitation to Comment *NZASB Exposure Draft 2022-9: Disclosure of fees paid to audit firms (Proposed amendments to FRS-44)* and *NZASB Exposure Draft 2022-10 Disclosure of fees paid to audit firms (Proposed amendments to PBE IPSAS 1)* together referred to as the EDs. We are encouraged by the NZASB's work to provide more useful information to financial statement users to assess the extent to which non-audit services have been provided by the entities' audit or review firm.

We believe the more specific disclosure and guidance proposed in the EDs will enhance the transparency and consistency of disclosures regarding fees paid to audit or review firms for other services.

We have responded to your specific questions in the appendix attached.

Please do not hesitate to contact either myself or Lara Truman (0274 899 896) should you have any queries. We also would be happy to meet with you to discuss our comments further if required.

Yours faithfully
Ernst & Young Limited

Susan Jones
New Zealand Assurance Leader

Simon Brotherton
New Zealand Professional Practice Director

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Appendix A - Response to specific ITC questions

Question 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 2022-9 and paragraph 116.3 of the ED 2022-10?

We support the NZASB's proposals to amend FRS 44 and PBE IPSAS 1 to introduce enhanced disclosures requiring information about fees incurred for services other than the audit or review of an entity's financial report / statements (referred to as financial statements throughout). We believe users of financial statements will benefit from the enhanced requirements around specific categories, and additional guidance regarding those categories, as we believe it will increase the transparency, consistency and comparability of the information provided in financial statements.

We recognise there is a range of different non-audit services an audit firm might provide to an entity, including newer types such as climate and sustainability related services. It is important to establish clear and consistent disclosure requirements to reflect the services performed. Based on this, we support the proposed EDs.

We also support the general alignment of the requirements in the EDs with the Financial Markets Authority's (FMA's) guidance on the use of additional categories to explain the different types of services an entity has received from its audit or review firm. The EDs will convert the best practice guidance into generally accepted accounting practice so reporting entities will be required to follow consistent requirements. In addition, we are encouraged to see the proposals in the EDs are generally aligned with the recommended disclosure requirements in the Australian market, which audit firms and ASIC have developed to improve transparency and consistency.

Question 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 for ED 2022-9 and ED paragraphs 116.11 - 116.18 for ED 2022-10)?

We agree with the proposals. The proposals provide a detailed description with examples to help financial statement preparers determine the type of services being provided and the category they should be included in. Having it clearly stated in FRS 44 / PBE IPSAS 1 will support consistent disclosure.

Question 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 for ED 2022-9 and ED paragraphs 116.19 - 116.24 for ED 2022-10)?

We agree with the proposals. The proposals provided a detail description with examples to help financial statement preparers determine what type of services should be included in this category. Having it clearly stated in FRS 44 / PBE IPSAS 1 will support consistent disclosure.

In order to ensure there is a well-defined distinction between 'audit and review related services' and 'other assurance services' we suggest the guidance makes it clear whether audit and review related services could include services that are 'assurance' in nature or whether all 'audit or review related services', which are themselves assurance services, should be included within 'other assurance services'. Presently we consider that it isn't clear whether assurance services (outside of the financial statement audit or review) must be included in other assurance services even when they might meet the definition of audit or review related services.

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Question 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 of ED 2022-9 and ED paragraphs 116.25 - 116.29 of ED 2022-10)?

We agree with the proposals. The proposals provided a detail description with examples to help financial statement preparers to determine what type of services should be included in this category. Having it clearly stated in FRS 44 / PBE IPSAS 1 will support consistent disclosure.

The Exposure Draft of Aotearoa New Zealand Climate Standard (NZ CS) 1: *Climate-related Disclosures* would require climate reporting entities to ensure that climate statements that disclose greenhouse gas emissions are the subject of an assurance engagement. We believe the examples proposed in paragraph 8.27(a) of ED 2022-9 and proposed paragraph 116.29(a) of ED 2022-10 (or their assurance related equivalents) should make reference to NZ CS 1 (once finalised), so that there is no ambiguity in categorising the assurance services required NZ CS 1 when this requirement become effective.

Also, see above Question 4 for suggestions regarding the distinction between audit and review related services and other assurance services.

Question 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 of ED 2022-9 and ED paragraphs 116.30 - 116.33 of ED 2022-10)?

We agree with the proposals. The proposals provided a detail description with examples to help financial statement preparers to determine what type of services should be included in this category. Having it clearly stated in FRS 44 / PBE IPSAS 1 will support consistent disclosure.

In the examples provided in the paragraph 30 of ED 2022-9 and paragraph 116.32 of ED 2022-10, we believe the amendments could also include transfer pricing and international tax assignments, as these are also common types of taxation services requested by entities.

Question 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 of ED 2022-9 and ED paragraphs 116.34 - 116.37 of ED 2022-10)?

We agree with the proposals. The proposals provided a detail description with examples to help financial statement preparers to determine what type of services should be included in this category. Having it clearly stated in FRS 44 / PBE IPSAS 1 will support consistent disclosure.

Question 7. Do you agree with the proposal that when an (a Tier 1 for ED 2022-10) 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 of ED 2022-9 and ED paragraphs 116.33 and 116.37 of ED 2022-10)?

We do not agree with the proposals. We do not believe the financial statements of an entity are the appropriate place to include disclosures regarding information about how an entity identifies, evaluates and mitigates threats of independence. We consider this proposal to be contrary to the purpose of the financial statements, which is to provide information related to the financial performance of the entity. It also appears inconsistent with any other requirements related to disclosure of governance considerations which are appropriately included in the annual report (where applicable) as opposed to the financial statements. Disclosures provided within an entity's audit report provide clear understanding of the requirements to be independent and the audit or review firms' compliance with these requirements.

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Question 8. Do you agree that, except for the disclosure requirements in ED paragraphs 8.31 and 8.35 for ED 2022-9 and ED paragraphs 116.33 and 116.37 for ED 2022-10, there should be no other disclosure concession for Tier 2 entities?

No, we don't agree with the proposals in the EDs. We believe the NZASB should consider providing reduced disclosure concessions for Tier 2 entities. It is unclear why the NZASB has decided to remove the existing concession in FRS 44 and PBE IPSAS 1. If the NZASB decides to retain these requirements we believe the basis for conclusions should detail why the concession has been removed. In our view, these additional requirements will require additional work for Tier 2 entities but with limited benefit given the users of the financial statements. We note the current Australian recommendations from ASIC only apply to listed entities.

We would support a requirement that Tier 2 entities disclose the fees for audit/review and non-audit/review services with no further classification or breakdown. Under the current requirements in FRS 44 and PBE IPSAS 1, Tier 2 entities are not required to disclose audit fees at all. We believe the cost of requiring the additional detailed disclosure requirements for Tier 2 entities would outweigh the benefits.

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

Yes, we agree with the proposed effective date. By providing more than a year for the effective date, it provides enough time for reporting entities to gather the required information for disclosure purposes.

Question 10. Do you have any other comments on the proposed enhanced disclosure requirements in the accompanying ED 2022-9 and ED 2022-10?

In the flow chart after paragraph 8.36 of ED 2022-9 and paragraph 116.38 of ED 2022-10, the conclusion box on the left bottom corner states that "No disclosure required about non-audit services provided by the entity's audit or review firm". This implies that certain non-audit services have been provided by the entity's audit or review firm but are exempted from disclosure. We believe this is not the intended result. Instead we believe that all non-audit services provided by the auditor or reviewer should already be classified into one of the three specific categories or any other services. Therefore, the conclusion box should state "No disclosure required because no non-audit/review services have been provided by the entity's audit or review firm".