



22 August 2022

External Reporting Board
PO Box 11250,
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Submitted via the online form

Attention: April Mackenzie

Dear April

NZASB Exposure Drafts 2022-9 and 2022-10 *Disclosure of fees paid to audit firms*

Thank you for the opportunity to comment on Exposure Drafts 2022-9 and 2022-10 *Disclosure of fees paid to audit firms*.

We agree in principle with the proposals for a reporting entity to expand the disclosure of fees paid to auditors in a reporting period. However, we have some observations that we would like the New Zealand Accounting Standards Board (the Board) to consider before concluding on the proposals.

Assurance practitioners are responsible for complying with the independence requirements of PES 1

In parts of the Exposure Drafts¹ it is implied that those charged with governance of the entity are responsible for ensuring that the auditor is independent. This is not correct because PES 1 requires assurance practitioners to comply with the minimum independence requirements specified in PES 1. Compliance with PES 1 is not a responsibility of the entity. Furthermore, paragraph NZ1.4 of PES 1 states:

“In applying the requirements outlined in the Code, assurance practitioners shall be guided not merely by the words, but also by the spirit of the Code.”

This means that assurance practitioners are responsible for ensuring they are independent. That responsibility cannot be deferred to, or overridden by, the entity.

However, those charged with governance of the entity can exercise a higher standard of independence than that specified in PES 1 should they consider that PES 1 does not adequately prescribe a standard of auditor independence with which they are comfortable.

In our opinion, paragraphs *116.33 and *116.37 of PBE IPSAS 1 (and the equivalent paragraphs in FRS-44) incorrectly place a disclosure obligation on the entity when that obligation correctly falls on the assurance practitioner. Accordingly, a disclosure about how the assurance practitioner identifies, evaluates, and mitigates the possible threats to independence for the provision of taxation or other services should be made by the assurance practitioner in their audit or review report.

We recommend that the Board considers whether it is appropriate to place an obligation on the entity to disclose information about how it identifies, evaluates, and mitigates the possible threats to independence that might arise if the audit or review firm carries out taxation or other services for the entity.

¹ Paragraphs *116.33 and *116.37 of PBE IPSAS 1

Categorising the types of engagement

Some confusion might arise when attempting to allocate engagements to the categories under paragraph 116.3(b) of PBE IPSAS 1 (and the equivalent paragraph in FRS-44).

Paragraphs 116.3(b)(i) and (ii) of PBE IPSAS 1 (and the equivalent paragraphs in FRS-44)

In our view, confusion begins to emerge between categories 116.3(b)(i) and (ii) in the context of the technical meaning of “assurance” and an “assurance engagement”. The glossary to PES 1 defines an assurance engagement as:

“An engagement in which an assurance practitioner expresses a conclusion designed to enhance the degree of confidence of the intended users other than the responsible party about the outcome of the evaluation or measurement of a subject matter against criteria.”

This is effectively the same as the definition of an “assurance service” in 116.26.

Such an engagement could easily fall within categories 116.3(b)(i) or 116.3(b)(ii).

Another way of categorising “assurance engagements” could be to simply combine all engagements that “express a conclusion” under one heading. Alternatively, such engagements could be separated into two categories; one category where there is a requirement to “express a conclusion to a party external to the entity or entity group” and another category where there is a requirement to “express a conclusion to a party internal to the entity or entity group”

Engagements that do not express a conclusion but do provide assurance

Assurance practitioners will often carry out engagements that have an assurance purpose but do not express a conclusion. A good example is an agreed-upon-procedures engagement when an assurance practitioner might report the result of some procedures they have carried out but will not express a conclusion. Similarly, some engagements may be designed to detect deficiencies in systems or processes. The assurance practitioner will report their findings but will not express a conclusion over the system or process.

The categories under paragraph 116.3(b) of PBE IPSAS 1 (and the equivalent paragraph in FRS-44) do not appear to cater for this type of engagement.

Non-assurance services

Paragraphs 116.3(b)(iii) and (iv) of PBE IPSAS 1 (and the equivalent paragraphs in FRS-44) are disclosures about what are commonly referred to as non-assurance services. The two categories (tax and other services) could be combined under the heading of non-assurance services and the separate engagements could be described in accordance with paragraphs 116.31 and 116.35 of PBE IPSAS 1 (and the equivalent paragraphs in FRS-44). The information value of the disclosures is in describing the nature of each type of engagement.

However, we do not have a strong view on whether “taxation services” and “other services” should be categorised under separate headings or together under a single “non-assurance services” heading.

If you have any questions about our submission, please contact Roy Glass at roy.glass@oag.parliament.nz

Yours sincerely,

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