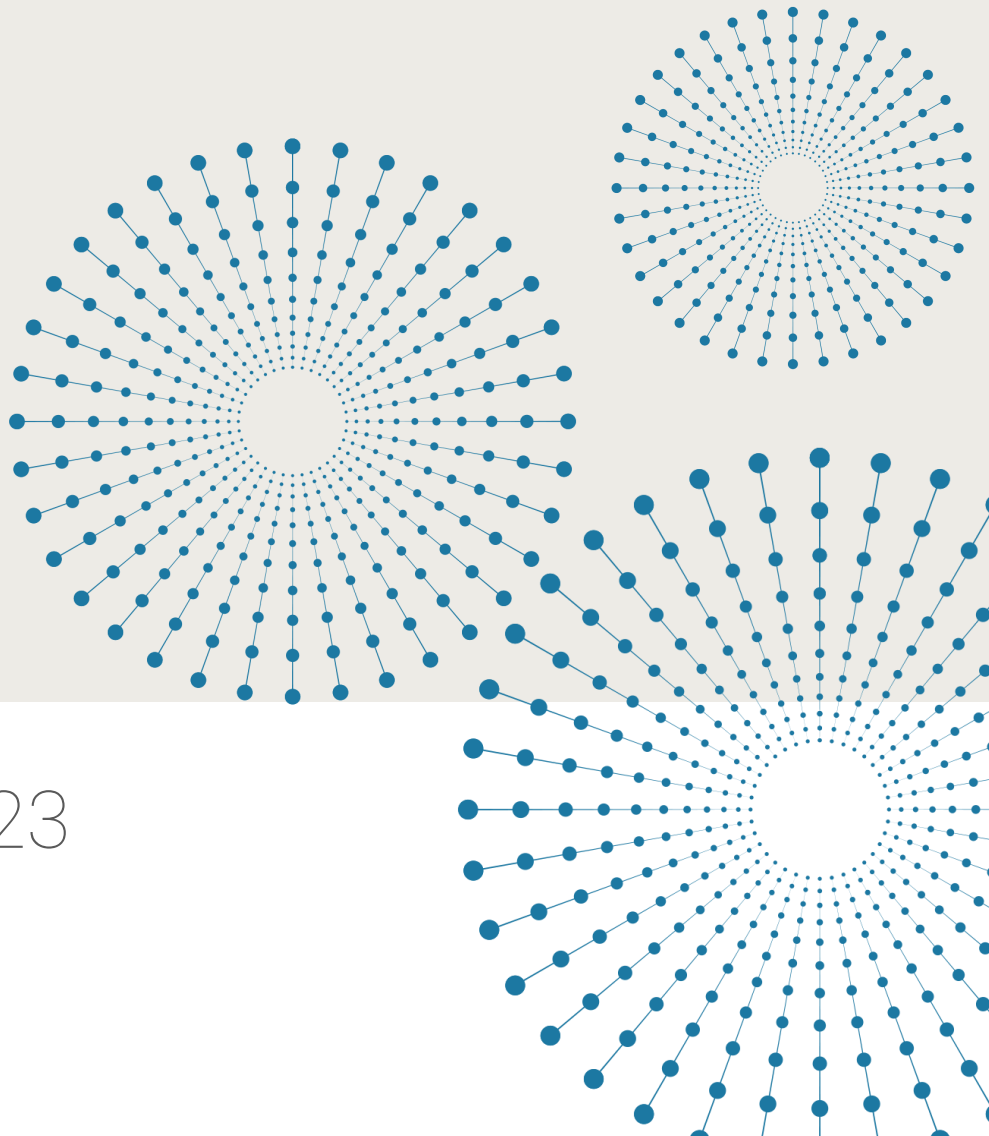


Disclosure of Fees for Audit Firms' Services

(Amendments to PBE IPSAS 1)



Issued May 2023





Disclosure of Fees for Audit Firms' Services (Amendments to PBE IPSAS 1)

Issued May 2023

This Tier 1 and Tier 2 PBE amending Standard requires an entity to describe the services provided by its audit or review firm and to disclose the fees incurred by the entity for those services using prescribed categories.

In finalising this amending Standard, the New Zealand Accounting Standards Board has carried out appropriate consultation in accordance with section 22(1) of the Financial Reporting Act 2013.

Legal status of amending Standard

This amending Standard was issued on 18 May 2023 by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

The amending Standard is secondary legislation for the purposes of the Legislation Act 2019.

The amending Standard, pursuant to section 27(1) of the Financial Reporting Act 2013, takes effect on the 28th day after the date of its publication. The amending Standard was published under the Legislation Act 2019 on 18 May 2023 and takes effect on 15 June 2023.

Commencement and application

The amending Standard has a mandatory date of 1 January 2024, meaning it must be applied by Tier 1 and Tier 2 public benefit entities (PBEs) for accounting periods that begin on or after this date.

Application to an earlier accounting period is permitted for accounting periods that end after this amending Standard takes effect – refer to paragraphs 154.17-154.19 of this amending standard.

DISCLOSURE OF FEES FOR AUDIT FIRMS' SERVICES
(AMENDMENTS TO PBE IPSAS 1)

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DISCLOSURE OF FEES FOR AUDIT FIRMS' SERVICES
(AMENDMENTS TO PBE IPSAS 1)

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Part A – Introduction

This amending Standard sets out amendments to PBE IPSAS 1 *Presentation Financial Reports*. The amendments require an entity to describe the services provided by its audit or review firm and to disclose the fees incurred by the entity for those services.

The amending Standard has been issued to enhance the existing requirements concerning the disclosure of information about fees incurred by the reporting entity during the reporting period for:

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

Additional commencement and application date provisions have been provided to ensure consistency with relevant sections of the Financial Reporting Act 2013 and Legislation Act 2019.

Part B – Scope

This Standard applies to Tier 1 and Tier 2 public benefit entities.

Tier 2 entities are required to comply with all the requirements in this Standard, except for paragraphs in this Standard denoted with an asterisk (*).

Part C – Amendments to PBE IPSAS 1 *Presentation of Financial Reports*

The existing paragraphs 116.1 and 116.2 on fees paid to auditors have been replaced, with the deleted text struck through.

The new paragraphs 116.1 to 116.36 (and the related headings) and paragraphs 154.14 to 154.19 have been added. For ease of reading, new text is not underlined.

Statement of Comprehensive Revenue and Expense

...

Information to be Presented either on the Face of the Statement of Comprehensive Revenue and Expense or in the Notes

...

~~*116.1 An entity shall disclose fees to each auditor or reviewer, including any network firm¹, separately for:~~

- ~~_____ (a) The audit or review of the financial report; and~~
- ~~_____ (b) All other services performed during the reporting period.~~

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

¹ Network firm is discussed in Professional and Ethical Standard (PES) 1 (Revised) Ethical Standards for Assurance Practitioners.

Fees for audit firms' services

- 116.1 Paragraph 116.3 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 report;² and
 - (b) Each other type of service provided by the entity's audit or review firm.
- 116.2 The objective of this disclosure is to provide information that will assist users of general purpose financial reports to assess the extent to which non-audit services³ have been provided by the entity's audit or review firm in the reporting period.
- 116.3 An entity shall disclose the fees incurred for services received from each audit or review firm⁴, separately for:**
- (a) The audit or review of the financial report (see paragraph 116.11 – 116.17);**
 - * (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 (see paragraph 116.19 – 116.24);**
 - (ii) Other assurance services and other agreed-upon procedures engagements (see paragraph 116.25 – 116.29);**
 - (iii) Taxation services (see paragraph 116.31 – 116.32); and**
 - (iv) Other services (see paragraph 116.34 – 116.38).**
- RDR 116.3 A Tier 2 entity shall disclose the total fees incurred for services other than the audit or review of the financial report provided by the entity's audit or review firm, and a general description of these services.**
- 116.4 Paragraph 116.3 requires the separate disclosure (under specified categories) of the fees incurred for services received from:
- (a) The reporting entity's audit or review firm; and
 - (b) Each other audit or review firm involved in the audit or review of subsidiary entity financial reports (referred to as the 'component audit or review firm'), when consolidated financial reports are presented.
- 116.5 For public sector entities⁵, the 'audit or review' firm will be the Controller and Auditor-General. When applying paragraph 116.3 and paragraph RDR 116.3, the fees incurred will include fees for services performed by an audit or review firm that completes a financial report audit or review engagement on behalf of the Controller and Auditor-General.
- 116.6 The disclosure of fees incurred for services covered by paragraph 116.3(b) and paragraph RDR 116.3, is required only when the audit or review firm has performed (or is performing) a financial report audit

² The entity's general purpose financial report comprise of the financial statements and, where required, service performance information prepared in accordance with PBE FRS 48 *Service Performance Reporting*.

³ The reference to 'non-audit services' includes any service that does not form part of the entity's financial statement audit or review engagement.

⁴ An 'audit or review firm' is defined as a sole practitioner, partnership or corporation or other entity undertaking the audit or review of the general purpose financial reports. A 'firm' should be read as referring to its public sector equivalents where relevant. The audit or review firm includes any network firms who provided services during the period. A 'network firm' is defined as an audit or review firm or entity that belongs to a network. A 'network' is a larger structure:

- (a) That is aimed at cooperation; and
- (b) That is clearly aimed at profit or cost-sharing or shares common ownership, control or management, common quality control policies and procedures, common business strategy, the use of a common brand name, or a significant part of professional resources.

⁵ Public sector entities are public entities as defined in the Public Audit Act 2001, and all Offices of Parliament.

DISCLOSURE OF FEES FOR AUDIT FIRMS' SERVICES
(AMENDMENTS TO PBE IPSAS 1)

or review engagement in the reporting period. For public sector entities, this will include services received from service providers involved in completing the financial report audit or review engagement on behalf of the Controller and Auditor-General.

- 116.7 When consolidated financial reports are prepared by public sector entities, the fees disclosed for other services in accordance with paragraph 116.3(b) and paragraph RDR 116.3, shall only include those services the component audit or review firm has provided to the component for which they have provided financial report audit or review services. The disclosure of fees for other services, in accordance with paragraph 116.3(b) and paragraph RDR 116.3, is not required to include other services the component audit or review firm has provided to other entities in the group.
- 116.8 The disclosure of the fees '*incurred*' for services received from each audit or review firm, as required by paragraph 116.3 and paragraph RDR 116.3, will be based on the amount of fees expensed (and/or capitalised) by the entity during the reporting period. The fee will include any disbursements incurred in connection with providing the services (such as travel and accommodation costs).
- 116.9 When an entity incurs a single fee for a bundle of services from its audit or review firm, the entity shall, when practical, allocate the fee to each different type of service, to meet the disclosure objective in paragraph 116.2. The fee allocation shall be based on the estimated amount of the stand-alone fee for each service as a proportion of the single fee amount. Where such a fee allocation is not practical, this shall be disclosed.
- 116.10 The descriptions used in this Standard for an 'audit engagement', a 'review engagement', an 'agreed-upon procedures engagement' and an 'assurance engagement', are based on the definitions of these terms as used in the professional and ethical standards and other standards issued by the New Zealand Auditing and Assurance Standards Board (NZAuASB).

Audit or review of the financial report

- 116.11 Fees for the audit or review of the financial report refer to the audit or review of the entity's general purpose financial report, as presented in accordance with this Standard or PBE IAS 34 *Interim Financial Reporting*. For public benefit entities this will include:
- (a) A complete set of financial statements; and
 - (b) Service performance information in accordance with PBE FRS 48, where this is required to be reported.
- 116.12 A financial report *audit engagement* is a reasonable assurance engagement where an assurance practitioner expresses an opinion on whether the historical financial report has been prepared, in all material respects, in accordance with an applicable financial reporting framework. A financial report audit engagement is conducted in accordance with applicable auditing and assurance standards.
- 116.13 A financial report *review engagement* is a limited assurance engagement where an assurance practitioner provides a conclusion as to whether anything has come to their attention to indicate that the historical financial report has not been prepared, in all material respects, in accordance with an applicable financial reporting framework. A financial report review engagement is conducted in accordance with applicable auditing and assurance standards.
- 116.14 The total fees for the audit or review of the financial report include all the services performed by the auditor as required to enable them to issue an audit opinion or review conclusion on the financial report and provide other required communications to those charged with governance as part of the audit or review engagement.
- 116.15 The total fees under this category include work performed in relation to the:
- (a) Annual financial report audit or review engagement; and
 - (b) Interim financial report audit or review engagement (if applicable).

DISCLOSURE OF FEES FOR AUDIT FIRMS' SERVICES
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116.16 The total fees under this category also include, when consolidated financial reports are presented, any fees incurred for the audit or review of the entity's subsidiaries' financial information. The total fees disclosed under this category will include any additional fees incurred as a result of issuing an audit opinion or review conclusion on the financial reports of the subsidiary entities.

116.17 Examples of services that form part of the financial report audit or review engagement include the following.

- (a) Attendance at audit committee meetings, board meetings, or annual general meetings to discuss matters arising as a result of the financial report audit or review engagement.
- (b) Discussions with management about audit or accounting matters that arise during or as a result of the financial report audit or review engagement.
- (c) Preparation of a "management letter" to those charged with governance to report on the outcomes of the financial report audit or review engagement, including advice and recommendations to improve the internal control environment.
- (d) Time incurred in connection with the audit or review of the income tax accrual or deferred tax balances as reported in the financial report.

116.18 [Not used]

Audit or review related services

*116.19 Fees for audit or review related services include services which are:

- (a) Closely related to the work performed as part of the financial report audit or review engagement, but which are not required to complete the audit or review engagement described in paragraphs 116.11 – 116.17; and/or
- (b) Services where it is reasonable to expect the services to be carried out by the entity's financial report auditor or reviewer.

*116.19 A Services classified in this category may include assurance services or other types of services, such as agreed-upon procedures engagements, provided that the nature of the services is consistent with paragraph 116.19.

*116.20 Services that meet the description of audit or review related services in paragraph 116.19 include those services that are largely carried out by members of the financial report audit or review engagement team, and this work generally relies on synergies in knowledge gained from undertaking the financial report audit or review engagement.

*116.21 Audit or review related services also include services that are required by legislation or regulation to be performed by a suitably qualified auditor or assurance practitioner, when such services meet the description in paragraph 116.19.⁶

***116.22 To satisfy the disclosure requirements in paragraph 116.3(b)(i), the entity shall:**

- (a) Describe the nature of each type of audit or review related service; and**
- (b) Disclose the total fees for each type of audit or review related service.**

⁶ Examples could include engagements required under the *Financial Markets Conduct Act 2013* to be performed by a qualified assurance practitioner.

***116.22 A In disclosing the information required in paragraph 116.22, an entity shall categorise each type of audit or review related service as follows:**

- (a) **Assurance engagements;**
- (b) **Agreed-upon procedures engagements; or**
- (c) **Other non-assurance engagements.**

*116.23 Examples of types of audit or review related services could include:

- (a) Engagements concerning summary financial reports and/or forecast financial reports;
- (b) Reporting on whether processes, procedures, and controls relating to the financial reporting system are suitably designed and operating effectively;⁷
- (c) Assurance engagements on solvency returns for insurance entities; and
- (d) Agreed-upon procedures engagements that meet the description in paragraph 116.19 (see paragraphs 116.24A and 116.24B) – examples of such agreed-upon procedures engagements could include reporting on banking covenant calculations and reporting on the use of grant funding.

*116.24 Audit or review related services will also include any fees incurred by the reporting entity that arise from the audit or review of the entity's associates, joint ventures, and/or other related entity financial reports.⁸

*116.24A An *agreed-upon procedures engagement* involves a practitioner performing procedures that have been agreed upon by the practitioner and the engaging party, where the engaging party has acknowledged that the procedures performed are appropriate for the purpose of the engagement. The practitioner communicates the agreed-upon procedures performed and the related findings in the agreed-upon procedures report. The engaging party and other intended users consider for themselves the agreed-upon procedures and findings reported by the practitioner and draw their own conclusions from the work performed by the practitioner. An agreed-upon procedures engagement is not an audit, review or other assurance engagement. An agreed-upon procedures engagement does not involve obtaining evidence for the purpose of the practitioner expressing an opinion or an assurance conclusion in any form. Agreed-upon procedures engagements are carried out in accordance with applicable professional standards, including relevant ethical requirements.⁹

*116.24B Agreed-upon procedures engagements shall be classified as either audit or review related services, or as other assurance services and other agreed-upon procedures engagements, based on the nature of the engagement and the application of the category descriptions. Judgement may be required in making this assessment.

Other assurance services and other agreed-upon procedures engagements

*116.25 Other assurance services and other agreed-upon procedures engagements include

- (a) Any assurance services provided by an audit or review firm which have not been classified under categories listed in paragraphs 116.3(a) or 116.3(b)(i); and
- (b) Any agreed-upon procedures engagements provided by an audit or review firm which have not been classified under the category in paragraph 116.3(b)(i).

*116.26 An *assurance service* involves an independent assurance practitioner evaluating information against certain criteria and expressing a conclusion about the information as a result of this evaluation, with a view to enhance the confidence of the intended users of this conclusion. Assurance engagements are conducted in accordance with applicable assurance standards.

⁷ These assurance services may be required to satisfy regulatory requirements or may have been authorised by those charged with governance to give an additional level of comfort than that provided by the financial report audit or review engagement.

⁸ Other related entities include for example (a) retirement benefit plans managed by the reporting entity to provide employee benefits; and (b) investment schemes where the entity is the scheme manager.

⁹ This description is based on paragraphs 4 and 6 of ISRS (NZ) 4400 *Agreed-Upon Procedures Engagements*.

- *116.26A An *agreed-upon procedures engagement* is described in paragraph 116.24A.
- *116.27 This category includes assurance services and agreed-upon procedures engagements that do not rely significantly on synergies in knowledge gained from undertaking the financial report audit or review engagement.
- *116.28 To satisfy the disclosure requirements in paragraph 116.3(b)(ii), the entity shall:**
- (a) Describe the nature of each type of other assurance service and other agreed-upon procedures engagement; and**
 - (b) Disclose the total fees for each type of other assurance service and other agreed-upon procedures engagement.**
- *116.28 A In disclosing the information required in paragraph 116.28, an entity shall categorise each type of service as follows:**
- (a) Assurance engagements; or**
 - (b) Agreed-upon procedures engagements.**
- *116.29 Examples of types of other assurance services and other agreed-upon procedures engagements could include:
- (a) Assurance engagements on greenhouse gas statements or other sustainability reports that are not part of the financial report;
 - (b) Assurance engagements on adherence to cyber/cloud security procedures;
 - (c) Other regulatory assurance engagements which are not considered to be audit or review related services; and
 - (d) Those agreed-upon procedures engagements that are not considered to be audit or review related services – an example of such agreed-upon procedures engagements could be reporting on health and safety.

Taxation services

- *116.30 Taxation services comprise non-audit and non-assurance services relating to ascertaining the entity's tax liabilities (or entitlements) or satisfying other obligations under taxation law. This category excludes the review of tax balances or disclosures as part of performing the audit or review of the general purpose financial report.
- *116.31 To satisfy the disclosure requirements in paragraph 116.3(b)(iii), the entity shall:**
- (a) Describe the nature of each type of taxation service; and**
 - (b) Disclose the total fees for each type of taxation service.**
- *116.32 Examples of types of taxation services include:¹⁰
- (a) Tax return preparation;
 - (b) Tax calculations to prepare accounting entries;
 - (c) Transfer pricing services;
 - (d) Tax planning and other tax advisory services;
 - (e) Tax services involving valuations; and
 - (f) Assistance in the resolution of tax disputes.

116.33 [Not used]

¹⁰ PES 1 *Professional and Ethical Standard 1*, as applied by auditors and other assurance practitioners, includes requirements that prohibit a firm and network firm from providing certain tax services to audit or review clients in certain circumstances because the threats created to auditor independence cannot be addressed by applying safeguards.

Other services

*116.34 Other services include any other services provided by the audit or review firm other than the services classified under the categories listed in paragraphs 116.3(a) and 116.3(b)(i) –(iii).

***116.35 To satisfy the disclosure requirements in paragraph 116.3(b)(iv), the entity shall:**

- (a) Describe the nature of each type of other service; and**
- (b) Disclose the total fees for each type of other service.**

*116.36 Examples of types of other services include:¹¹

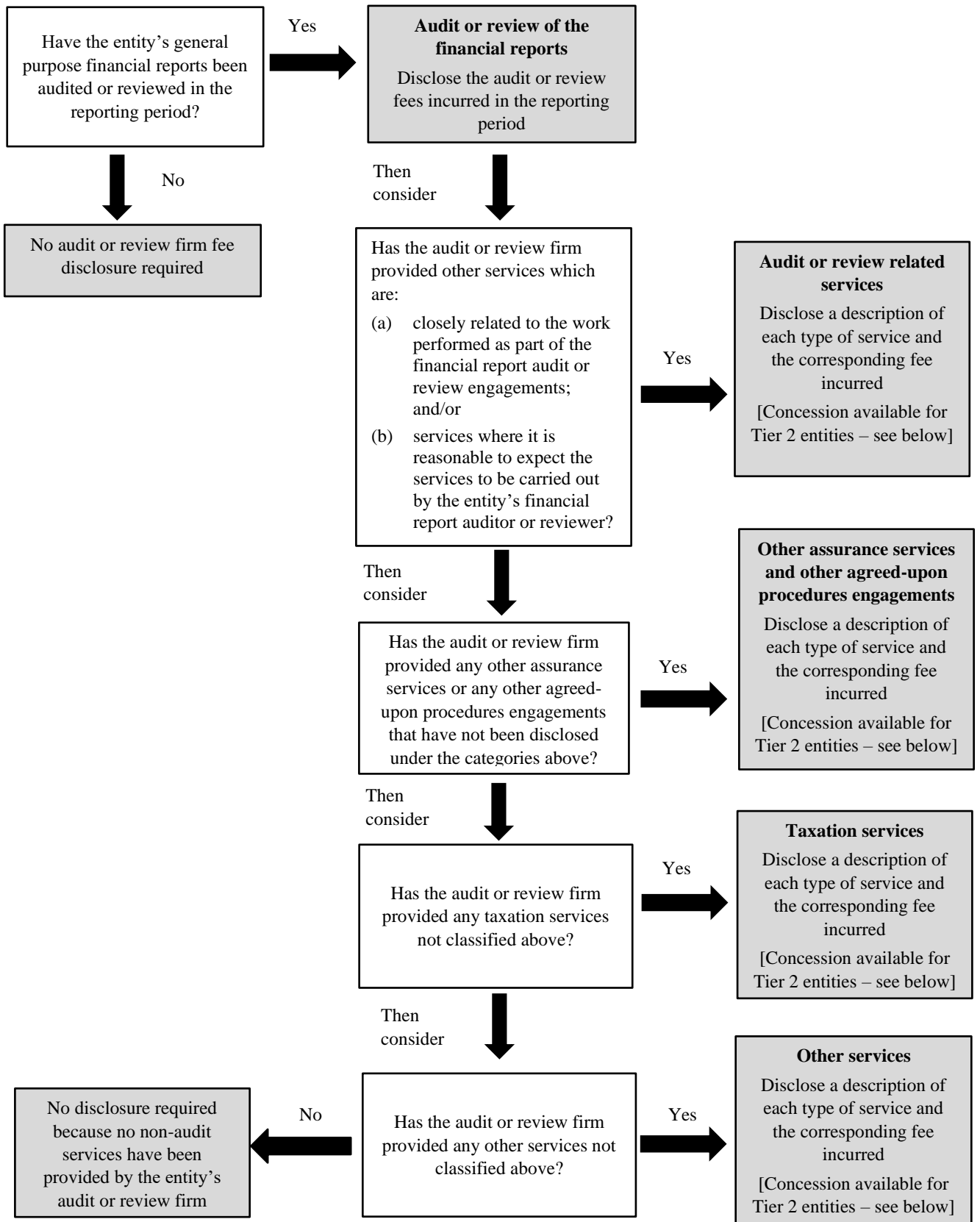
- (a) Accounting and bookkeeping;
- (b) Administration;
- (c) Valuations (including actuarial valuations);
- (d) Internal audit;
- (e) Information technology (including financial information systems);
- (f) Litigation support;
- (g) Legal;
- (h) Recruitment and remuneration;
- (i) Corporate finance and restructuring; and
- (j) Business acquisition due diligence.

116.37 [Not used]

116.38 The flowchart on the next page illustrates the application of the disclosure requirements concerning fees incurred for services provided by audit or review firms.

¹¹ PES 1, as applied by auditors and other assurance practitioners, describes the types of threats to auditor independence that might be created by the provision of other services by the audit or review firm. In certain circumstances and for specific types of services, PES 1 expressly prohibits a firm or network firm from providing other services to an audit or review client because the threats created cannot be addressed by applying safeguards.

Application of disclosure requirements



A Tier 2 entity is required to disclose the fees incurred for the audit or review of the financial report and the total fees incurred for non-audit and non-review services, together with a general description of the non-audit and non-review services (disaggregation of non-audit services by category is not required).

Effective date Commencement and application

Disclosure of Fees for Audit Firms' Services

- 154.14 The amending Standard *Disclosure of Fees for Audit Firms' Services* (Amendments to PBE IPSAS 1), published in May 2023, amended paragraphs 116.1 and 116.2, added a heading above paragraph 116.1 and added paragraphs 116.3–116.38 and the related headings.
- 154.15 An entity applying the amendments in this amending Standard shall provide comparative information in respect of the preceding accounting period.
- 154.16 An entity shall apply these amendments in accordance with the commencement and application date provisions in paragraphs 154.17–154.19. An entity that applies these amendments to an 'early adoption accounting period' shall disclose that fact.

When amending Standard takes effect (section 27 Financial Reporting Act 2013)

- 154.17 The amending Standard takes effect on the 28th day after the date of its publication under the Legislation Act 2019. The amending Standard was published on 18 May 2023 and takes effect on 15 June 2023.

Accounting period in relation to which standards commence to apply (section 28 Financial Reporting Act 2013)

- 154.18 The accounting periods in relation to which this amending Standard commences to apply are:
- (a) For an **early adopter**, those accounting periods following, and including, the **early adoption accounting period**.
 - (b) For any other reporting entity, those accounting periods following, and including, the first accounting period for the entity that begins on or after the **mandatory date**.

- 154.19 In paragraph 154.18:

Early adopter means a reporting entity that applies this amending Standard for an early adoption accounting period.

Early adoption accounting period means an accounting period of the early adopter:

- (a) That begins before the mandatory date but has not ended or does not end before this amending Standard takes effect (and to avoid doubt, that period may have begun before this amending Standard takes effect); and
- (b) For which the early adopter:
 - (i) First applies this amending Standard in preparing its financial report; and
 - (ii) Discloses in its financial report for that accounting period that this amending Standard has been applied for that period.

Mandatory date means 1 January 2024.

...

In the PBE IPSAS 1 Basis for Conclusions, paragraph BC15-BC42 and the preceding heading are added. For ease of reading, new text is not underlined.

Basis for Conclusions

[...]

Fees for audit firms' services

- BC15 In June 2022 the NZASB issued ED 2020-10 *Disclosure of Fees Paid to Audit Firms* (Proposed amendments to PBE IPSAS 1) to enhance the existing requirements concerning the disclosure of information about fees incurred by the reporting entity¹² during the reporting period for:
- (a) the audit or review of the entity's financial report; and
 - (b) other types of service provided by the entity's audit or review firm.
- BC16 The enhanced disclosures were proposed in response to concerns raised by key stakeholders about the inadequacy and inconsistency of information disclosed in general purpose financial reports about the nature and fees incurred for non-audit services provided by an entity's audit or review firm.
- BC17 The NZASB noted that the provision of non-audit services by an entity's audit or review firm is often seen by users as a key indicator of possible threats to auditor or reviewer independence. However, the NZASB also noted that the provision of non-audit services is just one of several factors that should be considered by those charged with governance when assessing auditor or reviewer independence.
- BC18 The NZASB agreed that the objective of the enhanced disclosures was not to provide users with all the information necessary to enable them to assess auditor independence, because those charged with governance have the responsibility for performing this assessment. In addition, the auditor's report, issued as a result of a financial report audit or review engagement, is required to include a statement that the auditor or reviewer is independent of the entity in accordance with the relevant professional and ethical standards.
- BC19 In response to concerns raised by key stakeholders noted in BC16, the NZASB agreed the disclosure objective should be 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.
- BC20 The NZASB also agreed the disclosure objective was not to provide users with information about all relationships the audit or review firm may have with the reporting entity. The auditor or reviewer may have other relationships with the reporting entity in addition to those that arise from the provision of non-audit services. The auditor's report, issued as a result of a financial reports audit or review engagement, is required to include a statement as to the existence of any relationship (other than that of auditor or reviewer) which the auditor or reviewer has with, or any interest which the auditor or reviewer has in, the entity or any of its subsidiaries.
- BC21 The NZASB acknowledged that under applicable professional and ethical standards, auditors and audit firms are prohibited from providing certain non-audit services under certain circumstances. The NZASB noted the enhanced disclosures are not intended to provide guidance on when it is appropriate for certain types of non-audit services to be provided by an entity's audit or review firm. Instead, the enhanced disclosures are intended to provide increased transparency and consistency of reporting when a reporting entity has incurred fees for non-audit services in the reporting period.

¹² The reference to 'reporting entity' in the BCs includes the group when consolidated financial reports are prepared.

DISCLOSURE OF FEES FOR AUDIT FIRMS' SERVICES
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- BC22 The NZASB considered whether the amendments should also include proposals concerning the disclosure of information about audit tenure. The Board acknowledged this provided important information for users when considering risks to auditor independence, but agreed not to propose disclosure requirements about audit tenure at this time. The Board will continue to follow developments in Australia and internationally on this matter.
- BC23 Constituents were broadly supportive of the proposed enhanced disclosure. However, some constituents recommended refinements and improvements to the proposals. The key areas where the NZASB agreed to make changes to the proposals based on constituents' feedback are explained below.

Classification of agreed-upon procedures engagements

- BC24 The proposed disclosure requirements did not specifically refer to agreed-upon procedures engagements. Some constituents recommended clarifying the category in which such engagements should be classified to promote consistent application. It was also noted that some agreed-upon procedures are consistent with the description of 'audit or review related services' and should be classified in that category when this is the case.
- BC25 In response to constituents' feedback, the NZASB agreed to:
- (a) Extend the category 'other assurance services' to 'other assurance services and other agreed-upon procedures engagements'; and
 - (b) Specify that an agreed-upon procedures engagement is classified as 'audit or review related services' when the nature of the engagement is consistent with the description of that category – otherwise, the engagement is classified as 'other assurance services and other agreed-upon procedures engagements'.
- BC26 The NZASB acknowledges that for some types of agreed-upon procedures engagements, judgement may be required in assessing whether the most appropriate category is 'audit or review related services' or 'other assurance engagements and other agreed-upon procedures engagements'. However, possible inconsistencies in classification are expected to be mitigated by the requirement to disclose the nature of the services included within each category.
- BC27 Furthermore, to mitigate the impact of judgement mentioned in paragraph BC19, the NZASB decided to require entities to:
- (a) categorise each type of service classified within 'audit or review related services' as an assurance engagement, an agreed-upon procedures engagement, or another non-assurance engagement; and
 - (b) categorise each type of service classified within 'other assurance engagements and other agreed-upon procedures engagements' as an assurance engagement, or an agreed-upon procedures engagement.

Clarifying the classification of assurance engagement

- BC28 Some constituents noted that confusion may arise when determining whether an assurance engagement should be classified as 'audit or review related services' or as 'other assurance engagements'. In response, the NZASB clarified that an assurance engagement whose nature is consistent with the description of the 'audit or review related services' category is classified in that category, otherwise it is classified as 'other assurance services and other agreed-upon procedures engagements'.
- BC29 The NZASB acknowledges that for some assurance engagements, judgement may be required when determining which of the two abovementioned categories is the most appropriate. However, as noted above in paragraph BC19, possible inconsistencies in classification are expected to be mitigated by the requirement to disclose the nature of the services included within each category, and by the additional disclosure requirements described in paragraph BC20.

Removal of the proposed disclosure requirements about mitigating risk to auditor independence in certain circumstances

- BC30 The proposed amendments included a requirement to disclose information about how the entity identifies, evaluates, and mitigates the possible threats to auditor or reviewer independence that might arise from the provision of 'taxation service' or 'other services' by the audit or review firm.

DISCLOSURE OF FEES FOR AUDIT FIRMS' SERVICES
(AMENDMENTS TO PBE IPSAS 1)

- BC31 Several respondents expressed concerns about this proposal. They noted that professional and ethical standards requires auditors and reviewers to ensure that they are independent of the audit or review client. However, the proposed disclosure may imply that the responsibility for ensuring auditor independence lies fully with the reporting entity, and may confuse users of financial report as to the responsibilities of the auditor with respect to independence as compared to the responsibilities of the entity. Some respondents considered that information about mitigating possible threats to auditor independence more appropriately belongs outside of the general purpose financial report (e.g. elsewhere in the annual report, together with other corporate governance information). Another concern was that the disclosure requirement would give rise to 'boiler plate' disclosures that would not be useful to users of general purpose financial report. Discussion with constituents also highlighted that guidance issued by financial market regulators recommends providing information in the annual report in relation to mitigating possible threats to auditor independence.
- BC32 After considering constituents' feedback, the NZASB agreed not to include disclosure requirements about how an entity manages possible threats to auditor independence when certain services are provided.

Disclosure concessions for entities in Tier 2

- BC33 The proposals included disclosure concessions for Tier 2 entities only with respect to the proposed disclosure relating to the mitigation of auditor or reviewer independence (see paragraph BC30 above). However, some constituents recommended additional concessions for Tier 2 entities – to ensure that the cost of providing the disclosure does not outweigh the benefits, given that Tier 2 entities do not have public accountability.
- BC34 In response to constituents' feedback, the NZASB agreed that Tier 2 entities be required to disclose only:
- (a) the total fees incurred for the audit or review of the entity's financial report; and
 - (b) the total fees incurred for other types of service provided by the entity's audit or review firm (without requiring further disaggregation), together with a general description of these services.
- BC35 The NZASB acknowledges that before *Disclosure of Fees for Audit Firms' Services* was issued, this Standard did not require Tier 2 entities to provide any disclosures relating to fees paid to audit firms. However, the disclosure requirements for Tier 2 entities described in paragraph BC34, which were introduced by *Disclosure of Fees for Audit Firms' Services*, are consistent with the requirements for Australian Tier 2 entities as set out in AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. The NZASB considers such alignment to be appropriate.

Disclosure of significant fees incurred after the end of the reporting period

- BC36 The proposed disclosure requirements referred to the disclosure of fees incurred during the reporting period. However, some constituents recommended that entities be required to disclose fees incurred for services provided by the audit or review firm after the end of the reporting period, but before the audit or review report is signed – as well as services not yet provided by the audit or review firm, but for which the audit or review firm has been engaged before the audit or review report is signed. The constituents acknowledged that such fees would not be recognised as expenses in profit or loss in the period for which the financial report is prepared. However, the constituents noted that disclosure of such fees is relevant and important for users' assessment of the extent of non-audit services provided by the audit or review firm, and the assessment of auditor independence with respect to the current period financial report audit or review.
- BC37 In response to the feedback above, the NZASB considered whether to include a requirement to disclose significant fees for services that the audit or review firm has been engaged to provide (including engagements entered into up until the date when the audit or review report is signed), but for which fees were not incurred during the reporting period.
- BC38 The NZASB decided not to include the disclosure requirement described in paragraph BC36-37 above, for the following reasons.
- (a) The effort of complying with a requirement to disclose (significant) fees incurred/engaged for after the reporting may outweigh the benefits, given that this information is already expected to be included in the auditor's report;

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- (b) The enhanced disclosures introduced by *Disclosure of Fees for Audit Firms' Services* are not intended to provide users with all information required for assessing auditor independence;
- (c) Disclosures in the financial report generally focus on the current reporting period (together with comparative information).
- (d) There are existing accounting standards that address the disclosure of material events after the reporting period.

Application of materiality considerations

- BC39 Feedback on the ED included an observation that fees for services provided by the entity's audit or review firm other than for the audit or review of the financial report are often low in value, and therefore, such fees may often not be disclosed due to materiality considerations. However, the NZASB notes that according to the definition of materiality in PBE IPSAS 1 *Presentation of Financial Reports* "the nature or size of the item, or a combination of both, could be the determining factor" in the assessment of materiality.
- BC40 It is possible that a fee incurred for a non-audit service provided by the entity's audit firm may be low in value, but the nature of the service may be such that information about the service and the related fee meets the abovementioned definition of materiality in PBE IPSAS 1. That is, it may be that omitting or misstating those items could "influence the decisions or assessments of users made on the basis of the financial statements or service performance information".
- BC41 Given the importance of auditor independence to users of financial reports, and the connection between the assessment of auditor independence and the fees incurred for non-audit services provided by the entity's audit firms, it is particularly important to consider the nature of the service – not only the magnitude of the fee – when determining whether to provide the disclosures required by this Standard.
- BC42 The NZASB finalised the amendments in April 2023.

Appendix D (containing an illustrative example) is added. For ease of reading, new paragraphs are not underlined.

Appendix D

Illustrative Example

This example accompanies, but is not part of, PBE IPSAS 1.

Disclosure of fees for audit firms' services

- IG1 The following example illustrates how an entity might satisfy the disclosure requirements in paragraph 116.3, including the specific disclosure requirements in paragraphs 116.22, 116.22A, 116.28 and 116.28A regarding fees classified as 'audit or review related services' or as 'other assurance services and other agreed-upon procedures engagements'.
- IG2 This example assumes that the entity:
- (a) did not incur any fees for 'taxation services' or 'other services' (therefore these categories are not included in the table below); and
 - (b) is not applying Tier 2 disclosure concessions (entities in Tier 2 are required to disclose the fees incurred for the audit or review of the financial report, and the total fees incurred for all other services provided by the audit or review firm with a general description of these services).
- IG3 In this example, the entity's audit firm performed agreed-upon procedures engagements relating to debt covenant calculations with respect to a number of the entity's loans. Consistent with the requirements in paragraphs 116.22, 116.22A, 116.28 and 116.28A, which require disclosures for *each type* of service classified as 'audit or review related services' or as 'other assurance services and other agreed-upon procedures engagements', the entity disclosed 'reporting on compliance with debt covenants' as a single item in the table below.

Fees incurred for services provided by the audit firm

	20X2	20X1
Audit [and/or review] of the financial report	xxx	xxx
Audit or review related services		
Review of adequacy of financial reporting systems and controls (assurance engagement)	xxx	xxx
Reporting on use of grant funding (agreed-upon procedures engagement)	xxx	xxx
Reporting on debt covenant calculations (agreed-upon procedures engagement)	xxx	xxx
Total	xxx	xxx
Other assurance services and other agreed-upon procedures engagements		
Adherence to cyber security procedures (assurance engagement)	xxx	xxx
Health and safety (agreed-upon procedures engagement)	xxx	xxx
Total	xxx	xxx
Total fees incurred for services provided by the audit firm	xxx	xxx