

## Board Meeting Agenda

In-person Meeting (Wellington) — Tuesday, 4 April 2023

Est Time	Item	Topic	Objective		Page
<b>NON-PUBLIC SESSION</b>					
12.40 pm 40 min		Lunch			
<b>PUBLIC SESSION</b>					
2.50 pm 15 min	<b>8</b>	<b>Disclosure of fees for audit firms' services</b>	(GS and AH)		
	8.1	Board memo	Consider	Paper	2
	8.2	Draft signing memo	Approve	Paper	22
	8.3	Draft Standard: <i>Disclosure of Fees for Audit Firms' Services</i> (Amendments to FRS-44)	Approve	Paper	30
	8.4	Draft Standard: <i>Disclosure of Fees for Audit Firms' Services</i> (Amendments to PBE IPSAS 1)	Approve	Paper	45
<b>NON-PUBLIC SESSION</b>					
4.50 pm	<i>Finish</i>				

Next NZASB meeting: 11 May 2023, in-person (Wellington)

**Date:** 23 March 2023

**To:** NZASB Members

**From:** Gali Slyuzberg and Anthony Heffernan

**Subject:** Disclosure of Fees for Audit Firms' Services

## COVER SHEET

### Project priority and complexity

<b>Project priority</b>	<p><b>High</b></p> <ul style="list-style-type: none"> <li>Domestic project in response to calls from New Zealand stakeholders to improve transparency and consistency of information disclosed about fees incurred by entities for services provided by their audit firms.</li> <li>The topic is of high interest to users of financial statements and regulators, as the extent to which an entity pays its audit firm for non-audit services is often seen as a key indicator of a possible threat to the auditor's independence.</li> </ul>
<b>Complexity of Board decision-making at this meeting</b>	<p><b>Medium</b></p> <ul style="list-style-type: none"> <li>At this meeting, the Board is asked to APPROVE the amending standards on <i>Disclosure of Fees for Audit Firms' Services</i>.</li> <li>The Board already agreed on how to address feedback from respondents to the Exposure Drafts (EDs) in December 2022 and February 2023. Changes made to the draft amending standards since the February 2023 meeting are limited and reflect Board Members' feedback from February and feedback received from key stakeholders as part of the 'fatal flaw-style' review.</li> </ul>

### Overview of agenda item

<b>Project status</b>	<p>Approval stage – seeking approval to issue the amending standards, having completed a 'fatal flaw-style' review with key stakeholders.</p>
<b>Project purpose</b>	<p>Proposals to enhance disclosure requirements about fees incurred for different types of services provided by an entity's audit or review firm – in response to calls for improvement in the transparency and consistency of information disclosed on this topic.</p>
<b>Board action required at this meeting</b>	<p>APPROVAL to issue the draft amending standards.</p> <p>We encourage any editorial comments to be sent directly to staff – <a href="mailto:gali.slyuzberg@xrb.govt.nz">gali.slyuzberg@xrb.govt.nz</a></p>

### Purpose and introduction<sup>1</sup>

1. In 2022, the Board consulted on two domestic Exposure Drafts (EDs) on *Disclosure of Fees Paid to Audit Firms*. The EDs aimed to improve the transparency and consistency of information disclosed about fees incurred for different types of services provided by an entity's audit or review firm, in addition to the financial statements audit or review. The consultation closed on 30 September 2022.
2. Feedback on the EDs indicated overall support for the objectives of the proposals. Respondents generally supported the proposed categories of fees to be disclosed. However, some respondents requested further clarifications and refinements to the categories and other proposed related disclosures.
3. In December 2022 and February 2023, the Board agreed on how to address the matters raised by ED respondents. The Board also agreed that staff should allow key stakeholders to review the draft amending standards from a 'fatal flaw' perspective, before approving the amending standards. This 'fatal flaw-style' review has now been completed.
4. At this meeting, we are seeking the Board's approval to issue the amending standards on *Disclosure of Fees for Audit Firms' Services*.

### Recommendation

5. We recommend that the Board:
  - (a) CONSIDERS the changes made to the draft amending standards to reflect the Board's discussion in February 2023 and the feedback received from key stakeholders during the 'fatal flaw-style' review;
  - (b) APPROVES for issue:
    - (i) *Disclosure of Fees for Audit Firms' Services*, which amends FRS-44 *Additional New Zealand Disclosures* (for for-profit entities); and
    - (ii) *Disclosure of Fees for Audit Firms' Services*, which amends PBE IPSAS 1 *Presentation of Financial Reports* (for PBEs); and
  - (c) APPROVES the signing memorandum from the Chair of the NZASB to the Chair of the XRB Board regarding the abovementioned amending standards.

### Structure of this memo

6. This memo includes the following sections.
  - (a) [Background](#)
  - (b) [Changes to the draft amending standards since the February 2023 meeting](#)
  - (c) [Application date \(effective date\)](#)
  - (d) [Approval of the draft amending standards](#)
  - (e) [Next steps](#)

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<sup>1</sup> This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

**Background**

7. Given that the Board discussed this project during the past two meetings, the background information on this project is included in the appendices, as follows:
- (a) [Appendix 1](#): Project timeline
  - (b) [Appendix 2](#): High-level summary of the ED proposals
  - (c) [Appendix 3](#): Summary of ED respondents
  - (d) [Appendix 4](#): Matters raised by ED respondents and how they were addressed

**Changes to the draft amending standard since the February 2023 meeting**

*Changes made in response to Board Members’ feedback in February 2023*

8. In response to Board Members’ feedback at the February 2023 meeting, we have made the following changes to the draft amending standards.

**Table 1 Changes since February 2023 in response to Board Members’ comments**

Matters raised by Board Members	Staff recommendations
<p><b>Matter A</b></p> <p>The draft amending standards taken to the Board’s February meeting included a new Illustrative Example, which included the item ‘greenhouse gas emissions’ as an example of an assurance engagement classified as <i>Other Assurance Engagements and Other Agreed-Upon Procedures Engagements</i>.</p> <p>A Board Member asked to delete this reference from the Illustrative Example, given that reporting and assurance practice in relation to GHG and sustainability reporting is still evolving. For example, some public sector entities may include GHG or sustainability information in their statement of service performance, which is part of their general purpose financial report.</p> <p>However, another Board Member noted that assurance services relating to GHG statements are not a new phenomenon and did not consider the reference to such assurance services to be problematic.</p> <p>While the above discussion related to the Illustrative Example, we note that paragraph 8.27 in the ‘core text’ of the ED included ‘assurance over greenhouse gas statements or other sustainability reports’ as an example of a service classified as <i>Other Assurance Services</i>. ED respondents did not raise concerns regarding the inclusion of this example.</p>	<p>On balance, we recommend the following:</p> <ul style="list-style-type: none"> <li>• In the Illustrative Example: Delete the reference to ‘greenhouse gas emissions’.</li> <li>• In paragraph 8.27 of the core text, which lists examples of services classified as <i>Other Assurance Engagements and Other Agreed-Upon Procedures Engagements</i>: <ul style="list-style-type: none"> <li>○ Retain the example ‘assurance over greenhouse gas statement or other sustainability reports’ – but add the words ‘that are not part of the financial statements’ (because if GHG/sustainability information is part of the financial statements/report, then assurance over them would be provided as part of the audit or review of the financial statements/report).</li> <li>○ Amend the lead-in sentence, so that it refers to services that <u>could</u> be included in this category – to acknowledge that some of the examples may in some circumstances be classified as <i>Audit or Review Related Services</i>, if they meet the description of that category.</li> <li>○ The recommended changes to paragraph 8.27 are shown below.</li> </ul> </li> </ul> <p><b>Other assurance services and other agreed-upon procedures engagements</b></p> <p>[...]</p> <p>*8.27 Examples of types of other assurance services and other agreed-upon procedures engagements <u>could</u> include:</p> <ul style="list-style-type: none"> <li>(a) assurance engagements on greenhouse gas statements or other sustainability reports <u>that are not part of the financial statements</u>; [...]</li> </ul>

Matters raised by Board Members	Staff recommendations
<p><b>Matter B</b></p> <p>In the draft amending standards taken to the Board’s February meeting, we have replaced all references to ‘fees paid to audit firms’ with references to ‘fees incurred for services provided by audit firms’. However, we had retained the title of the amending standards and the heading above the disclosure requirements as ‘Fees Paid to Audit Firms’.</p> <p>A Board Member recommended avoiding the use of the word ‘paid’ in the amending standard’s title and the disclosure requirements’ heading as well.</p>	<p>We have changed the title of the amending standards and the heading above the new disclosure requirements to <u>‘Disclosure of Fees for Audit Firms’ Services</u> (instead of Disclosure of Fees Paid to Audit Firms).</p>

9. We have also addressed editorial matters raised by Board Members at the February meeting.

**Question for the Board**

- Q1. Does the Board agree with staff’s recommended changes to the draft amending standards in response to matters raised by Board Members at the February 2023 meeting?

*Changes made in response to comments from key stakeholders as part of the ‘fatal flaw’ review*

10. As agreed with the Board in February 2023, during March 2023 we gave key stakeholders the opportunity to review the near-final draft of the amending standards, and checked if they had any comments from a ‘fatal flaw’ perspective.
11. The draft amending standards that we shared with key stakeholders for this review included the abovementioned changes in response to Board Members’ feedback at the February meeting.
12. For this ‘fatal flaw’-style review, we have reached out to the following key stakeholders:
- (a) all ED respondents;
  - (b) other key New Zealand stakeholders with an interest in this topic, such as accounting firms that did not respond to the ED (via the Accounting TRG) and FMA staff;
  - (c) XRB staff supporting the NZAuASB; and
  - (d) staff of the relevant Australian standard-setting boards, namely the Australian Accounting Standards Board (AASB), the Australian Audit and Assurance Standards Board (AUASB), and the Australian Professional and Ethical Standards Board (APESB).
13. We have received feedback from several ED respondents, as well as from FMA staff, NZAuASB staff, AASB staff and AUASB staff. We appreciate the useful feedback provided by these stakeholders.

14. Some stakeholders, including FMA staff, noted that they have no comments, and some stakeholders had purely editorial comments. Other stakeholders raised certain matters for our consideration. We have considered all matters raised and we recommend certain refinements to the wording of the amending standard with respect to some of these matters.
15. The matters raised by stakeholders as part of the ‘fatal flaw’ review and our recommendations are outlined in the table below. While this table shows changes made to the for-profit draft amending standard (Agenda Item 8.3), we also made equivalent changes to the PBE version (Agenda Item 8.4).

**Table 2 Recommended changes in response to stakeholders’ feedback**

Matter raised by key stakeholders	Staff considerations and recommendations
<p><b>Matter 1</b></p> <p>Some stakeholders commented on the possibility of inconsistent classification of agreed-upon procedures engagements (AUPs) under the draft amending standards.</p> <p>This is because judgement is required in determining whether a service meets the description of the <i>Audit or Review Related Services</i> category (which is a ‘nature-based’ category), or whether it should be classified as <i>Other Assurance Services and Other Agreed-Upon Procedures Engagements</i>.</p> <p>Two stakeholders recommended addressing the above matter by adding examples of AUPs that would be classified as <i>Audit or Review Related Services</i>.</p>	<p><b>We recommend some refinements to the amending standards</b></p> <p>While we have amended the ED proposals to specify that <i>Audit or Review Related Services</i> may include assurance and non-assurance services, such as AUPs, if their nature is consistent with the description of this category, we note that the <i>Audit or Review Related Services</i> category was <u>already set up as a ‘nature based’ category in the EDs</u>.</p> <p>Before the ED was published, the Board discussed the merits of principles-based or nature-based fee category descriptions, versus engagement type-based descriptions and rules-based classification requirements. Ultimately, the EDs included a mix of both category types. That is:</p> <ul style="list-style-type: none"> <li>• The <i>Audit or Review Related Services</i> category was described in the ED with reference to the <u>nature</u> of the service. A service is classified in this category if it is closely related to the work performed as part of the financial statements audit or review engagements (but which is not required to complete the audit or review engagement), and/or if the service is reasonably expected to be carried out by the entity’s auditor/reviewer.</li> <li>• By contrast, the other fee categories in the draft amending standard are based on the engagement type, e.g. <i>Other Assurance Services [and Other AUPs], Taxation Services</i>, etc.</li> </ul> <p>ED respondents generally supported the fee categories and their descriptions.</p> <p>Given the nature-based description of the <i>Audit or Review Related Services</i> category, some level of judgement would inevitably be required when determining whether AUPs and certain other services should be classified within this category.</p> <p>We note that ED respondents recommended clarifying the classification of AUPs, and noted that AUPs should not be classified as <i>Other Services</i>. In December 2022, the Board agreed to clarify in the draft amending standards that AUPs are classified as <i>Audit or Review Related Services</i> or as <i>Other Assurance Services and Other AUPs</i>, based on the nature of the AUP.</p> <p>Following comments previously received from AASB staff and AUASB staff, we discussed with the Board in December 2022 whether to require <u>all</u> AUPs to be classified as <i>Audit or Review Related Services</i>. However, the Board noted that this would be inconsistent</p>

	<p>with the fact that the <i>Audit or Review Related Services</i> category is set up as a nature-based category, and preferred to keep this category as nature-based.</p> <p>In December 2022, the Board agreed to add into the amending standards additional disclosure requirements for services classified as <i>Audit or Review Related Services</i> and as <i>Other Assurance Services and Other Agreed-Upon Procedures Engagements</i>. For each type of service classified in this category, entities would be required to disclose whether the type of service is an assurance engagement or an AUP, or another type of service. <u>These additional disclosures are expected to mitigate the possibility of inconsistent classification, and to increase transparency around the classification of AUPs and assurance engagements.</u></p> <p><u>Nevertheless:</u> We think that it would be feasible and useful to respond to stakeholders’ suggestions regarding examples of AUPs. In this regard, we note the following.</p> <ul style="list-style-type: none"> <li>• The non-authoritative Illustrative Example already includes examples of AUPs that are classified as <i>Audit or Review Related Services</i> and as <i>Other Assurance Services and Other AUPs</i>. The Illustrative Example shows ‘reporting on satisfaction of grant obligations’ and ‘reporting on compliance with debt covenants’ as examples of services classified as <i>Audit or Review Related Services</i>. These services are also mentioned in paragraph 8.21 of the ‘core text’, but that paragraph does not specify that these services are AUPs. Furthermore, the Illustrative Example includes an AUP classified as <i>Other Assurance Services and Other AUPs</i>.</li> <li>• To address stakeholders’ suggestions regarding examples of AUPs, and to further assist with the consistent classification of AUPs, we recommend ‘elevating’ the abovementioned examples of AUP classifications into the core text of the amending standards. The recommended modifications to paragraphs 8.21 and 8.27 of the for-profit amending standard are shown below (equivalent modifications are proposed for the PBE amending standard).</li> </ul> <p>*8.21 Examples of types of audit or review related services <u>could</u> include engagements concerning:</p> <ul style="list-style-type: none"> <li>(a) summary financial statements;</li> <li>[...]</li> <li><del>(d) compliance with banking covenants;</del></li> <li><del>(e) reporting on the satisfaction of grant obligations.;</del></li> <li>(f) assurance engagements on solvency returns for insurance entities; and</li> <li>(g) agreed-upon procedures engagements that meet the description in paragraph 8.17 (see paragraphs 8.22A and 8.22B) <u>— examples of such agreed-upon procedures engagements could include reporting on compliance with banking covenants and reporting on the satisfaction of grant obligations.</u></li> </ul> <p>[...]</p> <p>*8.27 Examples of types of other assurance services and other agreed-upon procedures engagements could include:</p> <ul style="list-style-type: none"> <li>[...]</li> <li>(d) those agreed-upon procedures engagements that are not considered to be audit or review related services <u>— an example of such agreed-upon procedures engagements could be reporting on health and safety compliance.</u></li> </ul>
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<p><b>Matter 2</b></p> <p>Some stakeholders commented on the possibility of inconsistent classification of assurance engagements – particularly, assurance over GHG information and other sustainability information – under the amending standards.</p>	<p><b>We recommend no further changes to the amending standards with respect to this topic</b></p> <p>As noted above, the description of the <i>Audit or Review Related Services</i> category is nature-based. Therefore, some level of judgement would inevitably be required when determining whether certain assurance engagements (other than the audit/review of the financial statements) are classified as <i>Audit or Review Related Services</i> or as <i>Other Assurance Services and Other AUPs</i>.</p> <p>Ultimately, entities would need to apply judgement to determine if assurance over climate-related information is classified as <i>Audit or Review Related Services</i> or <i>Other Assurance Services and Other AUPs</i> (assuming the climate-related information is not part of the financial statements/financial report itself, e.g. part of the Statement of Service Performance – in which case it would be included in the audit of the financial statements/financial report).</p> <p>The description of <i>Audit or Review Related Services</i> in the draft amending standards is:</p> <p>“8.17 Fees for audit or review related services include services which are:</p> <ul style="list-style-type: none"> <li>(a) closely related to the work performed as part of the financial statement audit or review engagement, but which are not required to complete the audit or review engagement described in paragraphs 8.9 – 8.16; and/or</li> <li>(b) services where it is reasonable to expect the services to be carried out by the entity’s auditor or reviewer.”</li> </ul> <p>For assurance over climate-related information like GHG emissions, our understanding is that part (a) of the description in paragraph 8.17 would generally not be met.</p> <p>The question then is whether part (b) would be met, i.e. is it reasonable to expect the entity’s financial statements auditor to also provide assurance over climate-related information? We think that arguably, the answer would generally be ‘no’. However, as previously discussed with the Board, we do not think that the amending standard should provide a definitive answer to this question.</p> <p>If the description in paragraph 8.17 is not met, then the assurance over the climate-related information would be classified as <i>Other Assurance Services and Other AUPs</i>.</p> <p>In the <i>Other Assurance Service and Other AUPs</i> section of the draft amending standard, paragraph 8.27 notes that this category <i>could</i> include assurance over GHG emissions and other sustainability reports (the word ‘could’ was added in response to the Board’s discussion in February 2023 in relation to assurance over GHG and sustainability information – see above).</p> <p>As noted above, the amending standards include additional disclosure requirements for services classified as <i>Audit or Review Related Services</i> and as <i>Other Assurance Services and Other Agreed-Upon Procedures Engagements</i>. For each type of service classified in this category, entities would be required to disclose whether the type of service is an assurance engagement or an AUP, or another type of service. <u>These additional disclosures are expected to mitigate the possibility of inconsistent classification, and to increase transparency around the classification of AUPs and assurance engagements.</u></p> <p>We do not recommend further changes with respect to this topic.</p>
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<p>Matter raised by key stakeholders</p>	<p>Staff considerations and recommendations</p>
	<p>Having said this: This may be an area where developing staff guidance in the future might be useful. We will keep a ‘watching brief’ on whether such guidance is required, as practice develops in relation to the recently-issued XRB Climate Standards, and as the Government considers whether to require assurance over more than just the GHG emissions information.</p>
<p><b>Matter 3</b></p> <p>Paragraph 8.17A of the draft amending standard, which the Board agreed to add at its December 2022 meeting, said the following about <i>Audit or Review Related Services</i>:</p> <p>“This category may include assurance services, non-assurance services, such as an agreed-upon procedures engagements, and other types of services, with a nature that is consistent with paragraph 8.17.” [Paragraph 8.17 sets out the description of <i>Audit or Review Related Services</i>].</p> <p>AUASB staff were of the view that under this wording, almost any service could be classified as <i>Audit or Review Related Services</i>.</p>	<p><b>We recommend some refinements to the amending standards</b></p> <p>Paragraph 8.17A was added specifically to address ED respondents’ recommendations to clarify the classification of AUPs and assurance engagements other than the audit/review of the financial statements. Given the nature-based description of the <i>Audit or Review Related Services</i> category in paragraph 8.17 (which remains the same as it was in the ED), that category can include both assurance services and non-assurance services such as AUPs, provided that these services meet the description in paragraph 8.17. Therefore, we think that paragraph 8.17A is factually correct, and it responds to the abovementioned feedback from ED respondents. On this basis, we recommend retaining this paragraph.</p> <p>However, to emphasise that classification in the <i>Audit or Review Related Services</i> category is not completely discretionary, we recommend refining paragraph 8.17A – so that it states in stronger terms that services are classified as <i>Audit or Review Related Services</i> only if they meet the description in paragraph 8.17. Specifically, we recommend modifying paragraph 8.17A as follows (paragraph 8.17 is not modified but is included for context).</p> <p><b>Audit or review related services</b></p> <p>*8.17 Fees for audit or review related services include services which are:</p> <ul style="list-style-type: none"> <li>(a) closely related to the work performed as part of the financial statement audit or review engagement, but which are not required to complete the audit or review engagement described in paragraphs 8.9 – 8.16; and/or</li> <li>(b) services where it is reasonable to expect the services to be carried out by the entity’s auditor or reviewer.</li> </ul> <p>*8.17A <del>This Services classified in this</del> category may include assurance services, or non-assurance services, such as agreed-upon procedures engagements, and other types of services, <u>provided that the nature of the services with a nature that</u> is consistent with paragraph 8.17.</p>

Matter raised by key stakeholders	Staff considerations and recommendations
<p><b>Matter 4</b></p> <p>AASB staff and AUASB staff noted that additional paragraphs to clarify the classification of AUPs and assurance engagements have added complexity to the amending standards. Specifically, the definition of AUPs could be difficult to understand for a non-auditor. Furthermore, we would need to update the definition of AUPs and the other definitions used in the amending standards when the NZAuASB updates these definitions in the relevant NZAuASB standards.</p>	<p><b>We recommend no further changes to the amending standards with respect to this topic</b></p> <p>While we received feedback from New Zealand constituents regarding possible inconsistent classification of AUPs and assurance engagements (see above), we have not received feedback from New Zealand constituents indicating that the additional clarifications we have added are complex per se.</p> <p>Regarding the definition included in the amending standards (which are based on the relevant definitions in NZAuASB standards):</p> <p>We included the definition/description of ‘assurance service’ in the EDs, and respondents did not express concerns about this definition. Some ED respondents expressed support for aligning the definitions in the EDs with those in the relevant assurance/professional/ethical standards.</p> <p>We have added the definition/description of AUP engagements after the ED consultation. It was necessary to add the definition of AUPs because, as requested by ED respondents, we have clarified the classification of AUPs in the draft amending standards. Without defining AUPs, it would not be clear to preparers what type of service the amending standard refers to when it says that AUPs are classified as <i>Audit or Review Related Services</i> or as <i>Other Assurance Services and Other AUPs</i>. We generally do not refer preparers of financial statements to a different suite of standards, such as standards for assurance professionals as issued by the NZAuASB. We do not expect the NZAuASB to frequently change the definition of AUP engagements, assurance engagements, etc. in its standards (but we will make sure that we are alert to any such changes if and when they occur).</p> <p>We acknowledge that the definition of an AUP, as set out in paragraph 8.22 of the for-profit amending standard, is relatively long and is not necessarily expressed in ‘plain English’. However, this definition is drawn from the NZAuASB standard ISRS (NZ) 4400. If we try to simplify the definition in our amending standards, there is a risk that our description could be inconsistent with the definition in ISRS (NZ) 4400. Therefore, we have not attempted to change this definition.</p>
<p><b>Matter 5</b></p> <p>AASB staff noted that some of the examples of <i>Audit or Review Related Services</i> listed in paragraph 8.21 might, in some circumstances, be appropriately classified as <i>Other Assurance Services and Other AUPs</i>.</p>	<p><b>We recommend some refinements to the amending standards</b></p> <p>Given the nature-based description of the <i>Audit or Review Related Services</i> category, we acknowledge that some of the services that we listed as examples of <i>Audit or Review Related Services</i> could, in some circumstances be classified as <i>Other Assurance Services and Other AUPs</i>. We also note that the EDs included examples under each fee category, and ED respondents did not express concerns regarding these examples (albeit some of them asked for additional examples). Nevertheless, to acknowledge that the examples of services in paragraph 8.21 may not always be classified as <i>Audit or Review Related Services</i>, we recommend adding the word ‘could’ into the lead-in sentence before the examples are listed, as shown below:</p> <p>*8.21 Examples of types of audit or review related services <u>could</u> include engagements concerning:</p> <p>(a) summary financial statements; [...]</p>

Matter raised by key stakeholders	Staff considerations and recommendations
<p><b>Matter 6</b></p> <p>As noted above, in December 2022 the Board agreed to require entities to disclose, for each type of service classified as <i>Audit or Review Related Services</i> or as <i>Other Assurance Services and Other AUPs</i>, whether the type of service is an assurance service, an AUP or another service. AUASB staff agreed that this disclosure could somewhat mitigate the risk of inconsistent classification of AUPs and assurance engagements, but were concerned that the requirements would lead to overly lengthy disclosures when an audit firm provides several non-audit services.</p>	<p><b>We recommend some refinements to the amending standards (Illustrative Example only)</b></p> <p>We note that paragraphs 8.20 and 8.20A, which set out the disclosure requirements for services classified as <i>Audit or Review Related Services</i>, refer to disclosures for <i>types</i> of services – as shown in the extract below (italics added for emphasis):</p> <p style="padding-left: 40px;">*8.20 To satisfy the disclosure requirements in paragraph 8.3(b)(i), the entity shall:</p> <p style="padding-left: 80px;">(a) describe the nature of <i>each type</i> of audit or review related service; and</p> <p style="padding-left: 80px;">(b) disclose the total fees for <i>each type</i> of audit or review related service.</p> <p style="padding-left: 40px;">*8.20A. In disclosing the information required in paragraph 8.20, an entity shall categorise <i>each type</i> of audit or review related service as follows:</p> <p style="padding-left: 80px;">(a) assurance engagements;</p> <p style="padding-left: 80px;">(b) agreed-upon procedures engagements; or</p> <p style="padding-left: 80px;">(c) other non-assurance engagements.”</p> <p>The disclosure requirements for <i>Other Assurance Services and Other AUPs</i> in paragraphs 8.26 and 8.26A are the same, except that there is no reference to ‘other non-assurance engagements’.</p> <p>We believe that the reference to ‘<i>each type</i>’ of service in the abovementioned paragraphs should make it clear that entities are not expected to provide the abovementioned disclosures separately for every individual service classified as <i>Audit or Review Related Services</i> and <i>Other Assurance Services and Other AUPs</i>. Furthermore, the general requirements relating to materiality and aggregation as set out in NZ IAS 1 and PBE IPSAS 1 would apply.</p> <p>Therefore, we do not think that further clarification is required in this regard in the core text of the amending standards.</p> <p>However, we recommend clarifying this matter further in the Illustrative Example, by adding the following paragraph before the table showing the illustrative disclosure:</p> <p style="padding-left: 40px;">IG3 In this example, the entity’s audit firm performed agreed-upon procedures engagements relating to compliance with debt covenants with respect to a number of the entity’s loans. Consistent with the requirements in paragraphs 8.20, 8.20A, 8.26, 8.26A, which require disclosures for <i>each type</i> 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.</p>

<p><b>Matter 7</b></p> <p>A stakeholder noted that we have deleted ED paragraph 8.16 in the <i>Audit or Review of the Financial Statements</i> section. That paragraph listed examples of services that do not form part of the audit or review. Rather than deleting this list of examples, the stakeholder would have preferred us to specify what categories these services should be classified as. In particular, the stakeholder recommended specifying the classification of the following commonly-performed services that were included in the deleted paragraph 8.16:</p> <ul style="list-style-type: none"> <li>• Consulting engagements regarding the implementation of new accounting standards and reporting requirements;</li> <li>• Risk management advisory services; and</li> <li>• Income tax services other than those directly related to the audit or review of the income tax accrual as reported in the financial statements.</li> </ul>	<p><b>We recommend no further changes to the amending standards with respect to this topic</b></p> <p>For context, the deleted paragraph 8.16 (which was included in the ED but subsequently deleted) is reproduced below:</p> <p>8.16 Examples of services that do not form part of the financial statement audit or review engagement include the following.</p> <ul style="list-style-type: none"> <li>(a) Internal control advisory services outside the scope of the audit or review engagement.</li> <li>(b) Consulting engagements regarding the implementation of new accounting standards and reporting requirements.</li> <li>(c) Internal audit services.</li> <li>(d) Risk management advisory services.</li> <li>(e) Due diligence procedures performed in connection with merger and acquisition procedures.</li> <li>(f) Income tax services other than those directly related to the audit or review of the income tax accrual as reported in the financial statements.</li> </ul> <p>At its February 2022 meeting, the NZASB discussed feedback received from ED respondents regarding paragraph 8.16. The stakeholder mentioned in the left-hand column was an ED respondent, and had recommended specifying in which categories the services listed in paragraph 8.16 should be classified. However, another ED respondent found paragraph 8.16 unnecessary and recommended deleting it. Two ED respondents also noted that if paragraph 8.16 is retained, then they recommend deleting from that paragraph those services that an audit firm would generally not be allowed to provide to an audit client.</p> <p>As discussed with the Board in February, we noted that if the examples in paragraph 8.16 run the risk of indicating services which are permitted to be provided by the entity’s audit or review firm, then we think it is important to avoid this risk and any unintended consequences.</p> <p>However, Based on our understanding of the professional and ethical standard PES 1, some services listed in paragraph 8.16 would be prohibited for the entity’s audit firm in some circumstances but may be allowed in other circumstances (dependent on the nature of the reporting entity). Therefore, we noted that determining which services to delete from paragraph 8.16 and which services to retain on the grounds that they are generally prohibited/allowed to be provided by the audit firm would be challenging. On balance, we considered that the simplest and ‘cleanest’ way to address the comments raised by ED respondents would be to delete the content of paragraph 8.16.</p> <p>We recommended this to the Board in February 2023, and the Board agreed with our recommendation.</p> <p>Nevertheless: We have considered again the three specific services that the stakeholder mentioned in the left-hand column has referred to in his comment as part of the ‘fatal flaw’ review. Our considerations are detailed below.</p> <ul style="list-style-type: none"> <li>• <u>Consulting engagements regarding the implementation of new accounting standards and reporting requirements:</u></li> </ul> <p>We note that one of the ED respondents said in their submission that an auditor would generally not be allowed to provide this service to an audit client. In our understanding, it is sometimes possible for audit firms to provide support to audit clients with</p>
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Matter raised by key stakeholders	Staff considerations and recommendations
	<p>respect to the application of a new accounting standard (with certain limitations on what such support could entail). However, given the abovementioned ED submission, we think it is safer not to add this service as an example under a specific category.</p> <ul style="list-style-type: none"> <li>• <b>Risk management advisory services:</b> The description of this service is rather broad, which makes it challenging to specify the category in which it should be classified. We also note that the examples listed under <i>Other Services</i> includes examples such as ‘internal audit’ and ‘information technology’, which could cover some risk management advisory services. For these reasons, we recommend not adding this service as an example under a specified category.</li> <li>• <b>Income tax services other than those directly related to the audit or review of the income tax accrual as reported in the financial statements:</b> We believe that these services are already covered by the <i>Taxation Services</i> category and the examples provided under that category. Therefore, we do not think any changes are necessary with respect to this service.</li> </ul> <p>In conclusion, we do not recommend making changes to the draft amending standards with respect to this matter.</p>
<p><b>Matter 8</b></p> <p>Paragraph 8.7 states that the descriptions used in the amending standard for ‘agreed-upon procedures engagement’ and certain other engagement types are based on “the definitions of these terms as used in the professional and ethical standards” issued by the NZAuASB. However, NZAuASB staff noted that the standard that defines AUPs is not referred to as a ‘professional and ethical standard’.</p>	<p><b>We recommend some refinements to the amending standards</b></p> <p>We understand that the term ‘professional and ethical standards’ specifically refers to the standards PES 1, PES 2 and PES 4, which relate to the Code of Ethics, quality management and engagement quality reviews.</p> <p>In the amending standards, we have based the description of AUPs on the description provided in the NZAuASB standard ISRS (NZ) 4400 <i>Agreed-Upon Procedures Engagements</i>. We acknowledge that this standard is not part of the group of ‘professional and ethical standards’ described above.</p> <p>To address NZAuASB staff’s comment in the simplest possible manner, we recommend adding the words ‘and other standards’ into paragraph 8.7, as shown below.</p> <p>8.7 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 <u>and other standards</u> issued by the New Zealand Auditing and Assurance Standards Board (NZAuASB).</p>

Matter raised by key stakeholders	Staff considerations and recommendations
<p><b>Matter 9</b></p> <p>In the Basis for Conclusions, paragraph BC 13 says: “The NZASB acknowledged that under applicable professional and ethical standards, auditors and other assurance practitioners are prohibited from providing certain non-audit services under certain circumstances”.</p> <p>NZAuASB staff recommended to:</p> <ul style="list-style-type: none"> <li>• Also refer to audit firms (not just ‘auditors’); and</li> <li>• Remove the reference to ‘other assurance practitioners’, as the relevant part of the Code of Ethics does not include explicit prohibitions for ‘other assurance practitioners’, and in any case the amending standards focus on service provided by audit firms.</li> </ul>	<p><b>We recommend some refinements to the amending standards</b></p> <p>We have updated paragraph BC 13 as per NZAuASB staff’s comments, i.e.</p> <p>BC 13 The NZASB acknowledged that under applicable professional and ethical standards, auditors <u>and audit firms</u> <del>and other assurance practitioners</del> are prohibited from providing certain non-audit services under certain circumstances.</p>
<p><b>Matter 10</b></p> <p>Stakeholders raised some editorial comments, including the following:</p> <ul style="list-style-type: none"> <li>• In the flow chart, the box relating to Other Assurance Services and Other AUPs did not mention other AUPs.</li> <li>• Inconsistent hyphenation of the term ‘agreed-upon procedures engagements’.</li> <li>• Some of the modifications made to the for-profit standard were not reflected in the PBE version.</li> </ul>	<p><b>Editorial corrections processed</b></p> <p>We have updated the draft amending standards to address the editorial comments.</p>

**Question for the Board**

Q2. Does the Board agree with staff’s recommendations in response to matters raised by key stakeholders as part of the ‘fatal flaw-style’ review?

**Application date (effective date)**

16. The EDs proposed that the enhanced disclosure requirements be effective for periods beginning on or after 1 January 2024. None of the ED respondents disagreed with this effective date.
17. We recommend proceeding with the proposed effective date of 1 January 2024. Given that the amending standards will introduce new disclosure requirements only, and will not change recognition and measurement requirements, we think that the proposed effective date would still give reporting entities sufficient time to implement the new requirements.
18. However, due to recent discussions with the Regulations Review Committee, we have made the following changes to the effective date paragraphs:
  - (a) Replaced the term 'effective date' with 'application date' – a term which we plan to use for all new standards going forward, to avoid confusion with the legislative reference to standards '*taking effect*' within 28 days of gazetting; and
  - (b) Deleted the words 'earlier application is permitted', given that discussion with the Regulations Review Committee regarding the early application of standards is still ongoing.
19. The changes above are reflected in paragraph 21 and Part D of the for-profit draft amending standard (Agenda Item 8.3) and in paragraph 154.14 and Part D of the PBE draft amending standard (Agenda Item 8.4).

**Question for the Board**

- Q3. Does the Board agree that entities should be required to apply the amending standards for periods beginning on/after 1 January 2024?
- Q4. Does the Board have any comments on the changes we have made to the wording of the effective date-related paragraphs in the amending standards?

**Approval of the amending standards**

20. We are seeking the Board's approval to issue the amending standards on *Disclosure of Fees for Audit Firms' Services*. Agenda Items 8.3 and 8.4 respectively contain:
  - (a) the draft for-profit amending standard *Disclosure of Fees for Audit Firms' Services* (Amendments to FRS-44); and
  - (b) the draft PBE amending standard *Disclosure of Fees for Audit Firms' Services* (Amendments to PBE IPSAS 1).
21. The only changes that are marked up in the draft amending standards are those that the Board did not yet see at its February 2023 meeting, i.e. the changes discussed in the previous sections of this memo. For the Board's convenience, these changes are highlighted in green in Agenda Items 8.3 and 8.4. We will remove these mark-ups before publishing the finalised amending standards.

22. Agenda Item 8.2 is the draft signing memorandum from the Chair of the NZASB to the Chair of the XRB Board. Given that the amending standards were developed as a domestic project, as opposed to being based on an IASB or IPSASB standard, we considered it important to provide the Chair of the XRB Board with sufficient information about the reasons for undertaking this project, the work we have performed and due process we have followed. As such, the signing memorandum in Agenda Item 8.2 is longer and more detailed than a typical signing memorandum.

**Question for the Board**

- Q5. Does the Board have any other feedback on the draft amending standards on *Disclosure of Fees for Audit Firms' Services* (agenda items 8.3 and 8.4)?
- Q6. Does the Board approve the amending standards on *Disclosure of Fees for Audit Firms' Services* (agenda items 8.3 and 8.4)?
- Q7. Does the Board approve the signing memorandum from the Chair of the NZASB to the Chair of the XRB Board with respect to the amending standards on *Disclosure of Fees for Audit Firms' Services* (agenda item 8.2)?

**Next steps**

23. If the Board agrees to approve the amending standards, we will:
- (a) update the amending standards for any changes identified by the Board at this meeting, and finalise them via review by the Chair;
  - (b) gazette and publish the amending standards – and notify New Zealand stakeholders that the standards have been issued; and
  - (c) inform the staff of the AASB, AUASB and APESB that the standards have been issued, and explain any changes made to the 'fatal flaw review' version of the standards.

**Attachments**

- |                 |   |
|-----------------|---|
| Agenda item 8.2 | Draft signing memorandum  |
| Agenda item 8.3 | Draft amending standard <i>Disclosure of Fees for Audit Firms' Services</i> (Amendments to FRS-44)      |
| Agenda item 8.4 | Draft amending standard <i>Disclosure of Fees for Audit Firms' Services</i> (Amendments to PBE IPSAS 1) |



## Appendix 1 Project timeline

Date	Project activity
December 2021	<ul style="list-style-type: none"> <li>The NZASB agreed to commence a domestic standard-setting project to develop enhanced disclosure requirements for fees paid to audit firms.</li> <li>The NZASB agreed to issue the proposals on this topic ahead of the AASB.</li> </ul>
April 2022	<ul style="list-style-type: none"> <li>Staff discussed the draft proposals with the NZASB and NZAuASB at the Boards' joint meeting.</li> <li>Staff updated the draft EDs for additional feedback received from NZASB and NZAuASB Members, AASB staff, APESB staff, FMA staff, CA ANZ staff, and audit and assurance practitioners.</li> </ul>
May 2022	<ul style="list-style-type: none"> <li>The NZASB approved the EDs, subject to the changes agreed at the meeting being reviewed by selected Board members and approved by the Chair.</li> <li>The NZASB agreed not to propose disclosures on audit tenure at this time.</li> </ul>
June 2022	Approval of the EDs is finalised and the EDs are published.
June – September 2022	<p>Staff carries out outreach activities, including:</p> <ul style="list-style-type: none"> <li>Promoting awareness of the EDs through an XRB Accounting Alert and publishing an article in the XRB newsletter, Pitopito Kōrero;</li> <li>Presenting a summary of the proposals as part of the XRB <i>Need to Know</i> accounting update webinars; and</li> <li>Reaching out to interested stakeholders.</li> </ul>
30 September 2022	Comment period closed. Ten formal and informal submissions were received.
October – November 2022	<ul style="list-style-type: none"> <li>Staff analysed feedback received and staff developed recommendations for addressing respondents' requests for clarification and refinements.</li> <li>Staff discuss draft recommendations for addressing key issues raised by respondents with the Accounting TRG (15 November 2022).</li> </ul>
December 2022	<ul style="list-style-type: none"> <li>Staff updated the NZASB on the feedback received on the EDs</li> <li>The NZASB agreed on how to address the key issues raised by ED respondents</li> </ul>
February 2023	The NZASB agreed on how to address the remaining matters raised by respondents
March 2023	Staff to seek feedback from key stakeholders on the updated ED, from a 'fatal flaw' perspective
Current	Staff are seeking NZASB approval to issue the amending standards on <i>Disclosure of Fees for Audit Firms' Services</i>

## Appendix 2: High-level summary of the ED proposals

**Objective:** 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. (However, the disclosures are not intended to provide *all* the information necessary for assessing auditor independence).

### Key proposals:

#### [1] Disclosures using specified fee categories

An entity shall disclose the fees incurred in the period for services received from each audit or review firm, separately, presented using the following categories:

- (a) the audit or review of the financial statements;
- (b) each type of other service, using the categories shown on the right.

To satisfy the disclosure requirements above, 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.

The EDs provide a description of each category, as well as examples of services that an entity may include within each category.

#### Fee categories per the ED

##### Audit or review of the financial statements

Fees for the audit or review of the financial statements refer to the audit or review of the entity’s general purpose financial statements, as presented in accordance with NZ IAS 1 *Presentation of Financial Statements* or NZ IAS 34 *Interim Financial Reporting*.

##### Audit or review related services

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

- (a) closely related to the work performed as part of the financial statement audit or review engagement, but which are not required to complete the audit or review engagement; and/or
- (b) services where it is reasonable to expect the services to be carried out by the entity’s auditor or reviewer.

##### Other assurance services [Note: Subsequently amended to ‘*Other assurance services and other agreed-upon procedures engagements*’]

Other assurance services<sup>2</sup> include any assurance service provided by an audit or review firm which have not been classified under the above two categories.

##### Taxation services

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 statements.

##### Other services

Include any other services provided by the audit or review firm other than the services classified under the above categories.

**[2] Disclosures about managing possible threats to auditor independence:** When fees for *taxation services* or *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 these services by the audit or review firm. [Note: Based on ED feedback received, the Board agreed to remove this disclosure]

**[3] RDR concessions:** A Tier 2 RDR concession was proposed for the disclosure about managing possible threats to auditor independence [Note: Based on ED feedback received, the Board agreed to extend the Tier 2 RDR concessions]

**Link to full EDs:** (a) [ED Disclosure of Fees Paid to Audit Firms – for for-profit entities](#); (b) [ED Disclosure of Fees Paid to Audit Firms – for PBEs](#)

<sup>2</sup> 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.

### Appendix 3: Summary of ED respondents

Ref	Respondent name	Respondent type	Feedback overview
<i>Formal submissions</i>			Feedback indicates <u>general support</u> for enhanced disclosures to improve the transparency and consistency of disclosures about fees incurred for services provided by entities' audit/review firms. Respondents supported the proposed fee categories and related guidance – but some respondents recommended further clarifications and refinements, and some disagreed with a specific proposed disclosure.
R1	Auckland Council	Public sector preparer	
R2	Baker Tilly Staples Rodway	Accounting firm	
R3	CA ANZ	Professional accounting body	
R4	CPA Australia	Professional accounting body	
R5	EY	Accounting firm	
R6	KPMG	Accounting firm	
R7	OAG	Public sector agency	
R8	PwC	Accounting firm	
<i>Informal feedback</i>			
R9	Professor Tom Scott	Academic	

### Appendix 4: Key matters raised by respondents and how they were addressed

Key matters	Board's response (Dec 2022)
<p><b>[1] Classification of agreed-upon procedures (AUPs)</b></p> <p>The EDs did not mention AUPs. Three respondents (R3, R7, R8) recommended <u>clarifying the category in which AUPs should be classified</u>.</p> <p>There were concerned that without clarification, AUPs may be classified as <i>Other Services</i>, which would incorrectly imply that AUPs pose a higher threat to auditor independence than services in other categories.</p>	<p>The Board agreed to clarify the classification of AUPs and assurance engagements by doing the following:</p> <ul style="list-style-type: none"> <li>• Rename the category '<i>Other Assurance Services</i>' as '<i>Other Assurance Services and Other Agreed-Upon Procedures Engagements</i>';</li> <li>• Clarify that the <i>Audit or Review Related Services</i> includes <u>assurance services and non-assurance services such as AUPs</u>, if the nature of the services is consistent with the description of this category.</li> <li>• Define AUPs and specify that <u>AUPs should be categorised as either <i>Audit or Review Related Services</i> or <i>Other Assurance Services and Other Agreed-Upon Procedures Engagements</i>, based on the nature of the engagement and the consideration of the category descriptions (noting that judgment may be required).</u></li> <li>• For the categories <i>Audit or Review Related Services</i> and <i>Other Assurance Services and Other Agreed-Upon Procedures Engagements</i>: Require entities to <u>specify whether each service within these categories is an assurance engagement, an AUP, or other non-assurance engagement</u>.</li> <li>• Include an <u>illustrative example</u> for the above disclosure.</li> </ul> <p>The Board <u>considered, but decided against</u>, requiring <u>all AUPs</u> (regardless of their nature) to be classified as <i>Audit or Review Related Services</i>. The Board noted that this product-based requirement would be <u>inconsistent</u> with the fact that the <i>Audit or Review Related Services</i> is a <u>nature-based</u> category. It was also noted that AUPs could be material, particularly considering the growth in services relating to climate.</p>
<p><b>[2] Classification of assurance engagements</b></p> <p>Two respondents (R5, R7) recommended <u>clarifying the classification of <i>assurance engagements</i></u> (other than the financial statements audit/review) – i.e. when are they classified as <i>Audit or Review Related Service</i> or as <i>Other Assurance Services</i>.</p>	

Key matters	Board’s response (Dec 2022)
<p><b>[3] Disclosure on managing possible threats to auditor independence when certain services are provided</b></p> <p>Five respondents (R3, R5, R7, R8 and R9) <u>disagreed with the proposed disclosure about how the entity manages possible threats to auditor independence</u> when <i>Taxation Services</i> or <i>Other Services</i> are provided by the audit or review firm.</p> <p>Reasons included: Concerns that the disclosure would create confusion regarding the auditor’s responsibility vs the reporting entity’s responsibility with respect to auditor independence, view that the disclosure more appropriately belongs elsewhere in the annual report, and concerns around boiler-plate disclosures.</p>	<p>The Board agreed to <u>remove the proposed disclosure requirement on the management of possible threats to auditor independence</u>. The Board noted that:</p> <ul style="list-style-type: none"> <li>• While the disclosure is important, it is more appropriate to provide such a disclosure outside of the financial statements, given that it deals with corporate governance matters.</li> <li>• Furthermore, guidance issued by financial market regulators recommends providing information in the annual report in relation to mitigating possible threats to auditor independence.</li> </ul> <p>The Board also agreed that:</p> <ul style="list-style-type: none"> <li>• <u>Staff guidance</u> should be developed to <u>encourage the disclosure</u> in the annual report about managing possible threats to auditor independence when <i>Taxation Services</i> or <i>Other Services</i> are provided by the audit/review firm.</li> <li>• This matter should be re-considered when the time comes to perform a <u>post-implementation review (PIR)</u> of the disclosures on fees paid to audit firms.</li> </ul>
<p><b>[4] Tier 2 disclosure concessions (RDR)</b></p> <p>The only Tier 2 disclosure concession proposed in the EDs related to the disclosure of how the entity manages possible threats to auditor independence.</p> <p>Two respondents (R5, R8) <u>called for additional disclosure concessions for entities in Tier 2</u>.</p> <p>They noted that the cost of disclosing the fees paid to the entity’s audit/review firm using the prescribed categories would outweigh the benefits.</p>	<p>The Board <u>agreed to extend the disclosure concessions for Tier 2 entities</u>, such that Tier 2 entities would <u>only be required to disclose</u>:</p> <ul style="list-style-type: none"> <li>• The <u>total fees</u> incurred for the <u>audit or review of the financial statements</u>; and</li> <li>• The <u>total fees</u> incurred for <u>all other services</u> provided by the audit or review firm (without requiring a breakdown of these fees by specified category) – plus a <u>general description of these other services</u>.</li> </ul>
<p><b>[5] Disclosure of fees for services that the audit firm has been engaged to provide after the reporting period</b></p> <p>The proposed disclosures in the EDs relate to “fees incurred during the reporting period”.</p> <p>Two respondents (R6, R8) recommended that entities should <u>also be required to disclose fees for services that the audit or review firm has been engaged to provide before the auditor’s report is signed, but for which fees were not incurred during the reporting period</u>. They considered this information is important for a more complete assessment of auditor independence. Furthermore, they noted that such a disclosure would be consistent with independence requirements for auditors under professional and ethical standards.</p>	<p>The Board decided <u>not to add a disclosure requirement for fees not yet incurred in the reporting period (significant or otherwise)</u>.</p> <p>The Board acknowledged the respondents’ argument that this information could be useful for assessing auditor independence. However, the Board noted that:</p> <ul style="list-style-type: none"> <li>• The effort of complying with a requirement to disclose (significant) fees incurred/engaged after the reporting may outweigh the benefits, given that this information is already expected to be included in the auditor’s report.</li> <li>• The proposed amending standards are <u>not</u> intended to provide users with <u>all</u> information required for assessing auditor independence;</li> <li>• Disclosures in financial statements generally focus on the current reporting period (plus comparatives).</li> <li>• There are existing accounting standards that address the disclosure of material events after the reporting period.</li> </ul>

Other matters raised by respondents were addressed by:

- Adding Basis for Conclusions paragraphs to remind that not only the size of the fee but also the nature of the services provided are considered when assessing materiality for the purpose of the disclosure requirements.
- Adding 'assurance engagements on solvency returns for insurance entities' as an example of a service that could be classified as *Audit or Review Related Services*, and adding 'transfer pricing services' as an example of a service that could be classified as *Taxation Services*.
- Deleting ED paragraph 8.16 (and the equivalent PBE ED paragraph 116.17) – which was included in the *Audit or Review of the Financial Statements* section of the ED and listed examples of services that are not part of the audit or review of the financial statements.
- Streamlined some of the paragraphs in the *Audit or Review Related Services* section, to make it clearer that paragraph 8.17 is the main description of this category, whereas the paragraphs that follow provide guidance to help apply this description.

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**Date:** 4 April 2023  
**To:** Michele Embling, Chair External Reporting Board  
**From:** Carolyn Cordery, Chair NZASB  
**Subject:** *Disclosure of Fees for Audit Firms' Services*

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### Introduction<sup>1</sup>

1. In accordance with the protocols established by the XRB Board, NZASB seeks your approval to issue the following amending standards:
  - (a) *Disclosure of Fees for Audit Firms' Services*, which amends FRS-44 *New Zealand Additional Disclosures* and applies to for-profit entities in Tier 1 and Tier 2; and
  - (b) *Disclosure of Fees for Audit Firms' Services*, which amends PBE IPSAS 1 *Presentation of Financial Reports* and applies to public benefit entities (PBEs) in Tier 1 and Tier 2.
2. The amending standards introduce enhanced disclosure requirements for fees incurred by reporting entities for different services provided by the entity's audit or review firm. Entities in Tier 1 are required to disclose the total fees incurred during the reporting period for:
  - (a) the audit or review of the financial statements/financial report; and
  - (b) each type of non-audit service provided by the audit or review firm, using the following categories:
    - i. Audit or Review Related Services
    - ii. Other Assurance Services and Other Agreed-Upon Procedures Engagements
    - iii. Taxation Services; and
    - iv. Other Services
3. The *Audit or Review Related Services* category is described with reference to the nature of the service. It includes services that meet the following description (regardless of whether the service is an assurance engagement or not):
  - (a) Services that are closely related to the work performed as part of the financial statement audit or review engagement, but which are not required to complete the audit or review engagement; and/or
  - (b) services where it is reasonable to expect the services to be carried out by the entity's auditor or reviewer.

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<sup>1</sup> This memo refers to the work of the International Accounting Standards Board (IASB) and uses registered trademarks of the IFRS Foundation (for example, IFRS® Standards, IFRIC® Interpretations and IASB® papers).

4. By contrast, the other categories are based on the engagement type, i.e. other assurance services, taxation services, etc.
5. There is a disclosure concession for entities in Tier 2. Tier 2 entities are required to disclose the total fees incurred during the reporting period for:
  - (a) the audit or review of the financial statements/financial report; and
  - (b) all other services provided by the audit or review firm, with a description of these services – but without a requirement to classify the services into specific categories.

#### **Rationale for developing the amending standards**

6. The amending standards on *Disclosure of Fees for Audit Firms' Services* are domestic standards. The reasons for developing these standards are outlined below.

#### *Calls from New Zealand stakeholders for enhanced disclosures*

7. Information about the total fees incurred by the reporting entity for services provided by an entity's audit firm or review firm, and about the nature of these services, is a disclosure of high interest to the users of the financial statements. The provision of non-audit services by an entity's audit or review firm is seen as a key indicator – albeit not the only indicator – of possible threats to auditor independence.
8. There are existing disclosure requirements in FRS-44 (for for-profit entities) and PBE IPSAS 1 (for PBEs) about fees paid to audit firms. However, key New Zealand stakeholders, including the FMA, have highlighted concerns about the inadequacy of and inconsistency of disclosures on this topic. In response, the amending standards introduce enhanced disclosure requirements to improve the consistency and transparency of disclosures on fees incurred by reporting entities for different types of services provided by their audit or review firms.

#### *Supporting recent developments relating to standards applied by auditors*

9. The amending standards also aim to complement recent developments relating to professional and ethical standards applied by auditors. In June 2022, the NZAuASB issued amendments to *Professional and Ethical Standard 1: Code of Ethics for Assurance Practitioners* (PES 1), reflecting recent amendments made by the International Ethics Standards Board for Accountants (IESBA). Those amendments included stricter prohibitions on the provisions of certain non-audit services to audit clients, as well as requirements for the communication of fee-related information to those charged with governance and to the public, to assist their judgements about auditor independence. Consequently, the NZAuASB has supported and encouraged the NZASB's project to develop enhanced disclosure requirements in relation to fees for audit firms' services in the general purpose financial statements.

#### *Consideration of developments in Australia*

10. The AASB has a project on *auditor remuneration* disclosures, but this project has been on hold. The AASB was waiting for a Federal Government response to the recommendations made by the Australian Parliamentary Joint Committee report on auditor remuneration.

11. Once the AASB's project recommences, it would be informed by the recommendations in [AASB Research Report 15 Review of Auditor Remuneration Disclosure Requirements](#) (December 2020). That report includes recommendations for categories of audit firm remuneration to be disclosed – which are aligned with proposals made by the Australian Professional Ethical Standards Board (APESB) in 2021. The categories of fees in the NZASB amending standards on *Disclosure of Fees for Audit Firms' Services* are broadly aligned with the categories of fees set out in the AASB Research Report 15.
12. The NZASB decided to develop and issue *Disclosure of Fees for Audit Firms' Services* ahead of the AASB recommencing its project on this topic. This was because of the need to respond to calls for improved disclosure from New Zealand constituents, and to ensure that financial statement disclosures support recent changes to ethical and professional standards as applied by auditors and other assurance practitioners in New Zealand.
13. The AASB have recently confirmed their intention to issue a future standard on this topic, which will be informed by the work of the NZASB.

### **Due process**

#### *Consultation on the Exposure Drafts (EDs)*

14. The NZASB issued Exposure Drafts ED 2022-9 *Disclosure of Fees Paid to Audit Firms* (proposing amendments to FRS-44) and ED 2022-10 *Disclosure of Fees Paid to Audit Firms* (proposing amendments to PBE IPSAS 1) in June 2022. Comments were due by 30 September 2022.
15. Outreach activities carried out by XRB staff in relation to the EDs included notifying constituents about the ED through the XRB's Accounting Alert, including an article on the EDs in the XRB newsletter Pitopito Kōrero, discussing the ED proposals at the XRB's virtual event *Need to Know – Accounting Standards*, and reaching out to key stakeholders likely to have an interest in the ED proposals. It should be noted that some of these key stakeholders provided input into the drafting of the ED before it was published.
16. Furthermore, in the time leading up to the EDs' publication and during the ED consultation period, XRB staff have kept the staff of the AASB, the Australian Auditing and Assurance Board (AUASB) and the Australian Professional and Ethical Standards Board (APESB) informed about the proposals in New Zealand – and have received input from the staff of the abovementioned Australian boards.
17. The NZASB received 10 formal and informal submissions on the EDs, from nine New Zealand constituents. ED respondents included accounting firms, professional accounting bodies, a public sector preparer of financial statements, the OAG and an academic.
18. Respondents generally supported the proposals to enhance the transparency and consistency of disclosures on fees incurred by reporting entities for different services provided by audit firms. However, some respondents recommended certain clarifications and refinements.
19. The NZASB discussed respondents' comments and how to address them in December 2022 and February 2023. In response to key matters raised by ED respondents, the NZASB has made the following modification to the requirements that were included in the EDs.



- (a) Clarified the classification of agreed-upon procedures engagements (AUPs) and assurance engagements (other than the audit/review of the financial statements) as follows.
    - (i) Specified that these services are to be classified as *Audit or Review Related Services* if their nature is consistent with the description of this category – otherwise they are to be classified as *Other Assurance Services and Other Agreed-Upon Procedures Engagements*.
    - (ii) For the categories *Audit or Review Related Services* and *Other Assurance Services and Other Agreed-Upon Procedures Engagements*, entities would be required to disclose whether each type of service classified in these categories is an assurance engagement, an AUP or another type of engagement. An illustrative example was added to illustrate this requirement.
  - (b) Removed the proposed disclosure concerning how the reported entity mitigates possible threats to auditor independence when fees are classified as *Taxation Services* or *Other Services*. Several respondents disagreed with this proposed disclosure. The NZASB agreed with respondents' feedback that this information was better placed elsewhere in the annual report, rather than in the financial statements.
  - (c) Expanded Tier 2 disclosure concessions as compared to the ED. The only Tier 2 disclosure concession in the EDs related to the disclosure on how the entity manages possible threats to auditor independence (which was subsequently removed). Some respondents called for additional disclosure concessions for entities in Tier 2. They noted that the cost of disclosing the fees paid to the entity's audit/review firm using the prescribed categories would outweigh the benefits. The NZASB agreed to expand the disclosure concessions for entities in Tier 2, so that Tier 2 entities would be only required to disclose the total fee for the audit/review of the financial statements and the total fees for all other services, with a description of those services (but without further classification into the specified categories).
20. The NZASB also made other changes to the draft amending standards in response to ED respondents' comments. For example, references to 'fees paid' were replaced with 'fees incurred', and the amending standards was renamed from *Disclosure of Fees Paid to Audit Firms* to *Disclosure of Fees for Audit Firms' Services*. This is because the disclosure requirements refer to fees incurred during the reporting period, whether they have already been paid or not.
21. The NZASB considered the following recommendations made by New Zealand constituents and by AASB staff and AUASB staff, but ultimately decided not to implement them (see the table on the next page).

**Recommendations considered but not implemented**

Recommendation	NZABS considerations
<p>The proposed disclosures in the EDs relate to “fees incurred during the reporting period”.</p> <p>Some respondents recommended that entities should <u>also</u> be required to disclose fees for services that the audit or review firm has been engaged to provide before the auditor’s report is signed, but for which fees were not incurred during the reporting period. They considered this would allow for a more complete assessment of auditor independence.</p>	<p>The NZASB acknowledged the respondents’ arguments, but decided <u>not to add a disclosure requirement for fees not yet incurred in the reporting period</u>, for the following reasons:</p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• The proposed amending standards are <u>not</u> intended to provide users with <u>all</u> information required for assessing auditor independence.</li> <li>• Disclosures in financial statements generally focus on the current reporting period (plus comparatives).</li> <li>• There are existing accounting standards that address the disclosure of material events after the reporting period.</li> </ul>
<p>Staff of the AASB and AUASB recommended requiring all AUPs, regardless of their nature, to be classified as Audit or Review Related Services – to avoid requiring entities to exercise judgement regarding the classification of the AUPs, and to avoid the risk of inconsistent classification.</p>	<p>The NZASB considered, but decided <u>not to implement this recommendation</u>, for the following reasons.</p> <ul style="list-style-type: none"> <li>• The NZASB noted that such a requirement would be inconsistent with the nature-based description of the <i>Audit or Review Related Services</i> category. It was also noted that AUPs could be material, particularly considering the growth in services relating to climate.</li> <li>• The NZASB acknowledged that the nature-based description of the <i>Audit or Review Related Services</i> category would require entities to apply judgement when classifying fees for AUPs and certain other services. However, this description was proposed in the EDs, and respondents generally supported the fee categories and their descriptions in the EDs. To mitigate possible inconsistency of classification arising from the application of judgement, the NZASB included a requirement for each type of service classified as <i>Audit or Review Related Services</i> or as <i>Other Assurance Services and Other AUPs</i>, to disclose whether the type of service is an assurance service, an AUP or another type of service.</li> </ul>

*Review by key stakeholders from a ‘fatal flaw’ perspective*

22. The NZASB completed its discussions on how to address respondents’ comments in the draft amending standards at its February 2023 meeting. However, considering that disclosures on fees for services provided by reporting entities’ audit firms is a topic of interest to many New Zealand stakeholders, before approving the standards the NZASB allowed XRB staff to share the near-final drafts of the amending standards with key stakeholders and seek their feedback from a ‘fatal flaw’ perspective.
23. Most New Zealand stakeholders did not raise significant matters during the ‘fatal flaw’ review. No concerns were raised by FMA staff. Some stakeholders commented on the possibility of inconsistent classification of agreed-upon procedures engagements (AUPs) and assurance engagements – such as assurance over greenhouse gas information and other sustainability

information – under the draft amending standards. We note that staff of the AASB and AUASB expressed concerns on this topic. In relation to these comments, we note the following.

- (a) Given the nature-based description of the *Audit or Review Related Services* category, some level of judgement with respect to the classification of AUPs and certain other services would be required.
  - (b) The amending standards include additional disclosure requirements for services classified as *Audit or Review Related Services* and as *Other Assurance Services and Other Agreed-Upon Procedures Engagements*. For each type of service classified in this category, entities would be required to disclose whether the type of service is an assurance engagement or an AUP or another type of service. These additional disclosures are expected to mitigate the possibility of inconsistent classification, and to increase transparency around the classification of AUPs and assurance engagements.
24. Nevertheless: In response to stakeholders' suggestions, to further assist with the classification of AUPs, the NZASB agreed to add into the core text of the amending standards some examples of AUPs that would generally be classified as *Audit or Review Related Services* and as *Other Assurance Services and Other Agreed-Upon Procedures Engagements*.
25. The NZASB also strengthened the requirement to classify services as *Audit or Review Related Services* only if they meet the description of that category, to emphasise that classification in this category is not a completely discretionary choice.

#### *Approval of the amending standards*

26. Following its consideration of comments from constituents, the NZASB has approved *Disclosure of Fees for Audit Firms' Services (Amendments to FRS-44)* and *Disclosure of Fees for Audit Firms' Services (Amendments to PBE IPSAS 1)*. The due process followed by the NZASB complied with the due process requirements established by the XRB Board and, in the NZASB's view, meets the requirements of section 22 of the Financial Reporting Act 2013.
27. In accordance with section 22(2) of the Financial Reporting Act 2013 the NZASB has considered whether the amending standard is likely to require the disclosure of personal information. In the NZASB's view the amending standard does not include requirements that would result in the disclosure of personal information and therefore no consultation with the Privacy Commissioner is required.

#### **Consistency with XRB Financial Reporting Strategy**

##### *Domestic development not based on IASB or IPSASB standards*

28. The amending standards are standards in their own right. The two amending standards apply respectively to for-profit entities in Tier 1 and Tier 2 and to PBEs in Tier 1 and Tier 2. Accounting standards for for-profit entities in Tiers 1 and 2 are generally based on standards issued by the IASB, and accounting standards for PBEs in Tiers 1 and 2 are generally developed based on standards issued by the IPSASB. The amending standards are not based on an international pronouncement issued by the IASB or the IPSASB. However, the NZASB is

satisfied that the development of domestic amending standards was appropriate for the following reasons.

- (a) These domestic standards have been developed to address concerns raised by New Zealand stakeholders (see above).
- (b) The AASB has a project on the same topic, except that this project has been on hold. The fee categories for disclosure in the amending standards are largely consistent with the categories that had been considered in Australia (see above).
- (c) While the amending standards are not based on an IASB pronouncement or an IPSASB pronouncement, in developing the amending standards the NZASB has taken into account relevant literature relating to assurance, professional and ethical standards, in New Zealand and in other countries, such as Australia, the UK and the US.
- (d) The amending standards introduce disclosure requirements only, and do not represent a departure from the recognition and measurement requirements in IFRS Accounting Standards issued by the IASB, or in IPSAS issued by the IPSASB.

*RDR concessions for Tier 2 entities*

- 29. The amending standards include disclosures concessions for Tier 2 entities (RDR concessions) – please see above for further information on these concessions and the rationale for them.

*Consistency with Australia (relevant to the for-profit amending standard only)*

- 30. As noted above, the AASB’s project on disclosure of fees for services provided to the reporting entity by its audit firm has been on hold in Australia. However, The AASB have recently confirmed their intention to issue a future standard on this topic, which will be informed by the work of the NZASB. The fee categories included in the amending standards on *Disclosure of Fees for Audit Firms’ Services* are largely consistent with the categories that have been considered in Australia (see above). It is therefore expected that once the AASB re-commence their project on the disclosure of fees for services provided by audit firms, the Australian disclosure requirements would be largely consistent with those in the New Zealand amending standards.
- 31. In 2020, the AASB issued a stand-alone disclosure standard, AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-Profit and Not-for-Profit Tier 2 Entities*. Prior to this New Zealand and Australia had equivalent RDR regimes and New Zealand’s Tier 1 and Tier 2 for-profit reporting requirements were aligned with those in Australia. The AASB now considers whether to add new disclosure requirements to AASB 1060 on a case-by-case basis.
- 32. While the AASB is yet to re-commence discussions on its project on disclosures of fees for services provided by audit firms, we note that the disclosure requirements for Tier 2 entities in the amending standards on *Disclosure of Fees for Audit Firms’ Services* are consistent with the disclosures currently required in AASB 1060 for Australian Tier 2 entities.

*Conclusion*

33. The issue of *Disclosure of Fees for Audit Firms' Services* (Amendments to FRS-44) is consistent with those elements of the Financial Reporting Strategy that are relevant to a domestic for-profit accounting standard: it is expected to retain a harmonised position with Australia for Tier 1 for-profit entities (once Australia recommences its project on the same topic) and is consistent with the Accounting Standards Framework.
34. The issue of *Disclosure of Fees for Audit Firms' Services* (Amendments to PBE IPSAS 1) is consistent with those elements of the Financial Reporting Strategy that are relevant to a domestic PBE Standard: it is consistent with the Accounting Standards Framework.

**Application date**

35. The amending standard will be applicable for annual periods beginning on or after 1 January 2024.

**Other matters**

36. There are no other matters relating to the issue of these amending standards that the NZASB considers to be pertinent or that should be drawn to your attention.

**Recommendation**

37. The NZASB recommends that you sign the attached certificate of determination on behalf of the XRB Board.

**Attachments**

*Disclosure of Fees for Audit Firms' Services* (Amendments to FRS-44)

Certificate of determination: *Disclosure of Fees for Audit Firms' Services* (Amendments to FRS-44)

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

Certificate of determination: *Disclosure of Fees for Audit Firms' Services* (Amendments to PBE IPSAS 1)

Carolyn Cordery  
Chair NZASB

DISCLOSURE OF FEES FOR AUDIT FIRMS' SERVICES  
(AMENDMENTS TO FRS-44)

## Disclosure of Fees for Audit Firms' Services

Issued [XX April 2023]

This Standard was issued on [XX April 2023] by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [XX May 2023].

Reporting entities that are subject to this Standard are required to apply it in accordance with the application effective date, which is set out in Part D.

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

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

### Note for NZASB Members:

This is the draft amending standard *Disclosure of Fees for Audit Firms' Services* (Amendments to FRS-44). We are seeking the Board's approval to finalise and issue this amending standard. This draft is based on the text of the 2022 Exposure Draft (ED) *Disclosure of Fees Paid to Audit Firms*, and has been updated for the following changes:

- Changes that the NZASB agreed on at its December 2022 and February 2023 meetings, to address matters raised by ED respondents – given the stage of this project, these changes are not marked up anymore; and
- additional changes made after the February 2023 meeting as a result of Board Members' feedback and feedback received from key stakeholders as part of the 'fatal flaw' review of the draft standard – these changes are marked up and highlighted in green (we will remove this shading before publishing the final standard).

DISCLOSURE OF FEES FOR AUDIT FIRMS' SERVICES  
(AMENDMENTS TO FRS-44)

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ISBN

DISCLOSURE OF FEES FOR AUDIT FIRMS' SERVICES  
(AMENDMENTS TO FRS-44)

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DISCLOSURE OF FEES FOR AUDIT FIRMS' SERVICES  
(AMENDMENTS TO FRS-44)

**Part A – Introduction**

This Standard sets out amendments to FRS-44 *New Zealand Additional Disclosures*. 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 using prescribed categories.

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 B – Scope**

This Standard applies to Tier 1 and Tier 2 for-profit entities.

**Part C – Amendments to FRS-44 *New Zealand Additional Disclosures***

The existing paragraphs 8.1 and 8.2 on fees paid to auditors have been replaced, with the deleted text struck through.

The new paragraphs 8.1 to 8.36 (and the related headings) and paragraph 21 have been added. For ease of reading, new text is not underlined.

**Disclosures**

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...

**Audit fees**

~~\*8.1 An entity shall disclose fees to each auditor or 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.~~

~~\*8.2 For 8.1 (b) above, an entity shall describe the nature of other services.~~

DISCLOSURE OF FEES FOR AUDIT FIRMS' SERVICES  
(AMENDMENTS TO FRS-44)

## **Fees paid to for audit firms' services**

- 8.1 Paragraph 8.3 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 statements; and
  - (b) each other type of service provided by the entity's audit or review firm.
- 8.2 The objective of this disclosure is to provide information that will assist users of general purpose financial statements to assess the extent to which non-audit services<sup>1</sup> have been provided by the entity's audit or review firm in the reporting period.
- 8.3 An entity shall disclose the fees incurred for services received from each audit or review firm<sup>2</sup>, separately for:**
- (a) the audit or review of the financial statements (see paragraphs 8.9 – 8.15);**
  - \* (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 paragraphs 8.17 – 8.22);**
    - (ii) other assurance services and other agreed-upon procedures engagements (see paragraphs 8.23 – 8.27);**
    - (iii) taxation services (see paragraphs 8.28 – 8.30); and**
    - (iv) other services (see paragraphs 8.32 – 8.34).**
- RDR 8.3A Tier 2 entity shall disclose the total fees incurred for services other than the audit or review of the financial statements provided by the entity's audit or review firm, and a general description of these services.**
- 8.4 Paragraph 8.3 requires the separate disclosure (under specified categories) of the fees incurred for services received from:
- (a) the entity's audit or review firm; and
  - (b) each other audit or review firm involved in any element of the audit or review of the entity's financial statements, including the subsidiary financial statements when consolidated financial statements are presented.
- 8.5 The disclosure of the fees '*incurred*' for services received from each audit or review firm, as required by paragraph 8.3 and RDR 8.3, 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).
- 8.6 The disclosure of fees incurred for fees covered by paragraph 8.3(b) and paragraph RDR 8.3, is required only when the audit or review firm has performed (or is performing) a financial statement audit or review engagement.
- 8.7 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

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<sup>1</sup> The reference to 'non-audit services' includes any service that does not form part of the entity's financial statement audit or review engagement.

<sup>2</sup> 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 statements. 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.

DISCLOSURE OF FEES FOR AUDIT FIRMS' SERVICES  
(AMENDMENTS TO FRS-44)

the professional and ethical standards and other standards issued by the New Zealand Auditing and Assurance Standards Board (NZAuASB).

- 8.8 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 8.2. 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.

### **Audit or review of the financial statements**

- 8.9 Fees for the audit or review of the financial statements refer to the audit or review of the entity's general purpose financial statements, as presented in accordance with NZ IAS 1 *Presentation of Financial Statements* or NZ IAS 34 *Interim Financial Reporting*.
- 8.10 A financial statement *audit engagement* is a reasonable assurance engagement where an assurance practitioner expresses an opinion on whether the historical financial statements are prepared, in all material respects, in accordance with an applicable financial reporting framework. A financial statement audit engagement is conducted in accordance with applicable auditing and assurance standards.
- 8.11 A financial statement *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 statements have not been prepared, in all material respects, in accordance with an applicable financial reporting framework. A financial statement review engagement is conducted in accordance with applicable auditing and assurance standards.
- 8.12 The total fees for the audit or review of the financial statements include all the services performed by the auditor as required to enable them to issue an audit opinion or review conclusion on the financial statements and provide other required communications to those charged with governance as part of the audit or review engagement.
- 8.13 The total fees under this category include work performed in relation to the:
- (a) annual financial statement audit or review engagement; and
  - (b) interim financial statement audit or review engagement (if applicable).
- 8.14 The total fees under this category also include, when consolidated financial statements 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 statements of the subsidiary entities.
- 8.15 Examples of services that form part of the financial statement audit or review engagement include the following.
- (a) Attendance at audit committee meetings, board meetings, or annual general meetings for the purpose of discussing matters arising as a result of the financial statement audit or review engagement.
  - (b) Discussions with management about audit or accounting matters that arise during or as a result of the financial statement audit or review engagement.
  - (c) Preparation of a "management letter" to those charged with governance to report on the outcomes of the financial statement 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 statements.
- 8.16 [Not used]

DISCLOSURE OF FEES FOR AUDIT FIRMS' SERVICES  
(AMENDMENTS TO FRS-44)

## Audit or review related services

- \*8.17 Fees for audit or review related services include services which are:
- (a) closely related to the work performed as part of the financial statement audit or review engagement, but which are not required to complete the audit or review engagement described in paragraphs 8.9 – 8.15; and/or
  - (b) services where it is reasonable to expect the services to be carried out by the entity's auditor or reviewer.
- \*8.17A ~~This Services classified in this~~ category may include assurance services, or non-assurance services, such as agreed-upon procedures engagements, and other types of services, provided that the nature of the services with a nature that is consistent with paragraph 8.17.
- \*8.18 Services that meet the description of audit or review related services in paragraph 8.17 include those services that are largely carried out by members of the financial statement audit or review engagement team, and this work generally relies on synergies in knowledge gained from undertaking the financial statement audit or review engagement.
- \*8.19 Audit or review related services also include services which are required by legislation or regulation to be performed by a suitably qualified auditor or assurance practitioner, when they meet the description in paragraph 8.17.<sup>3</sup>
- \*8.20 To satisfy the disclosure requirements in paragraph 8.3(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.**
- \*8.20A. In disclosing the information required in paragraph 8.20, 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.**
- \*8.21 Examples of types of audit or review related services could include engagements concerning:
- (a) summary financial statements;
  - (b) forecast financial statements;
  - (c) reporting on whether processes, procedures, and controls relating to the financial reporting system are suitably designed and operating effectively;<sup>4</sup>
  - ~~(d) compliance with banking covenants; and~~
  - ~~(e) reporting on the satisfaction of grant obligations;~~
  - (f) assurance engagements on solvency returns for insurance entities; and
  - (g) agreed-upon procedures engagements that meet the description in paragraph 8.17 (see paragraphs 8.22A and 8.22B) – examples of such agreed upon procedures engagements could include reporting on compliance with banking covenants and reporting on the satisfaction of grant obligations.
- \*8.22 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 statements.<sup>5</sup>

<sup>3</sup> This will include specified engagements required under the *Financial Markets Conduct Act 2013* to be performed by a qualified assurance practitioner.

<sup>4</sup> 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 statement audit or review engagement.

<sup>5</sup> 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.

DISCLOSURE OF FEES FOR AUDIT FIRMS' SERVICES  
(AMENDMENTS TO FRS-44)

\*8.22A For the purpose of this Standard, 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.<sup>6</sup>

\*8.22B 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 is required in making this assessment.

### Other assurance services and other agreed-upon procedures engagements

\*8.23 Other assurance services and other agreed-upon procedures engagements include:

- (a) any assurance service provided by an audit or review firm which have not been classified under the categories listed in paragraphs 8.3(a) or 8.3(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 8.3(b)(i), ~~i.e. audit or review related services.~~

\*8.24 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.

\*8.24A An agreed-upon procedures engagement is described in paragraph 8.22A.

\*8.25 This category includes assurance services and agreed-upon procedures engagements that do not rely significantly on synergies in knowledge gained from undertaking the financial statement audit or review engagement.

**\*8.26 To satisfy the disclosure requirements in paragraph 8.3(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.**

**\*8.26A. In disclosing the information required in paragraph 8.26, an entity shall categorise each type of service as follows:**

- (a) **assurance engagements; or**
- (b) **agreed-upon procedures engagements.**

\*8.27 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 statements;
- (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 compliance.

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<sup>6</sup> This definition is based on paragraphs 4 and 6 of ISRS (NZ) 4400 *Agreed-Upon Procedures Engagements*.

DISCLOSURE OF FEES FOR AUDIT FIRMS' SERVICES  
(AMENDMENTS TO FRS-44)

### Taxation services

\*8.28 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 statements.

**\*8.29 To satisfy the disclosure requirements in paragraph 8.3(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.**

\*8.30 Examples of types of taxation services include:<sup>7</sup>

- (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.

8.31 [Not used]

### Other services

\*8.32 Other services include any other services provided by the audit or review firm other than the services classified under the categories listed in paragraphs 8.3(a) and 8.3(b)(i)–(iii).

**\*8.33 To satisfy the disclosure requirements in paragraph 8.3(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.**

\*8.34 Examples of types of other services include:<sup>8</sup>

- (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.

8.35 [Not used]

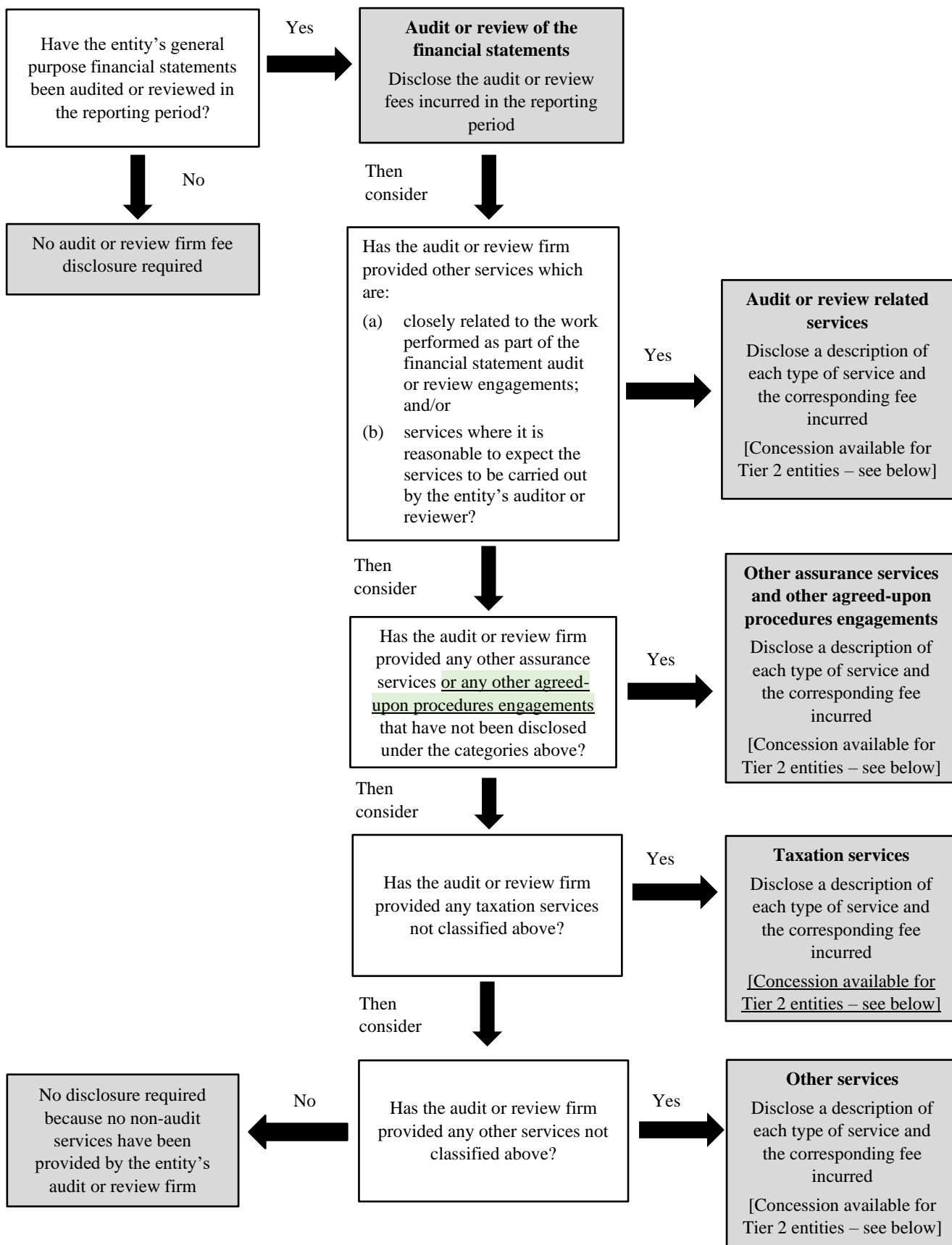
8.36 The flowchart on the next page illustrates the application of the disclosure requirements concerning fees incurred for services provided by audit or review firms.

<sup>7</sup> 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.

<sup>8</sup> 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.

DISCLOSURE OF FEES FOR AUDIT FIRMS' SERVICES  
(AMENDMENTS TO FRS-44)

**Application of disclosure requirements**



...  
A Tier 2 entity is required to disclose the fees incurred for the audit or review of the financial statements 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).

DISCLOSURE OF FEES FOR AUDIT FIRMS' SERVICES  
(AMENDMENTS TO FRS-44)**Effective Application date**

...

- 21 *Disclosure of Fees Paid to for Audit Firms' Services*, issued in [April 2023], amended paragraphs 8.1 and 8.2 and the preceding heading and added paragraphs 8.3–8.36 and the related headings. An entity shall apply those amendments for annual periods beginning on or after [1 January 2024]. ~~Earlier application is permitted.~~

In the NZASB FRS-44 Basis for Conclusions, paragraph BC7-BC35 are added.

**Fees paid to for audit firms' services**

- BC7 In June 2022 the NZASB issued ED 2020-9 *Disclosure of Fees Paid to Audit Firms* (Proposed amendments to FRS-44) to enhance the existing requirements concerning the disclosure of information about fees incurred by the reporting entity<sup>9</sup> 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.
- BC8 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 statements about the nature and fees incurred for value of non-audit services provided by an entity's audit or review firm.
- BC9 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.
- BC10 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 statement 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.
- BC11 In response to concerns raised by key stakeholders noted in BC8, the NZASB agreed the disclosure objective should be 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.
- BC12 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 statement 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.
- BC13 The NZASB acknowledged that under applicable professional and ethical standards, auditors and audit firms ~~and other assurance practitioners~~ 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.

<sup>9</sup> The reference to 'reporting entity' in the BCs includes the group when consolidated financial statements are prepared.



DISCLOSURE OF FEES FOR AUDIT FIRMS' SERVICES  
(AMENDMENTS TO FRS-44)

- BC14 The NZASB noted the Australian Accounting Standards Board (AASB) has an ongoing project on *Auditor Remuneration* which is considering the introduction of similar enhanced disclosures. In December 2021, the NZASB agreed to develop, and issue proposed amendments ahead of AASB pronouncements on this topic. This decision was based on the uncertainty concerning when the AASB will be in a position to finalise its proposals and the need to respond to calls for improved disclosures from New Zealand stakeholders. The NZASB acknowledged the intention to harmonise the enhanced disclosure requirements with Australia in the future.
- BC15 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.
- BC16 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*

- BC17 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.
- BC18 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'.
- BC19 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.
- BC20 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*

- BC21 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'.
- BC22 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](#).

DISCLOSURE OF FEES FOR AUDIT FIRMS' SERVICES  
(AMENDMENTS TO FRS-44)

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

- BC23 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.
- BC24 Several respondents expressed concerns about this proposal. They noted that professional and ethical standards require 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 statements as to the responsibilities of the auditor with respect to independence as compared to the responsibilities of the entity. Some respondents considered information about mitigating possible threats to auditor independence more appropriately belongs outside of the general purpose financial statements (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 statements. 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.
- BC25 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*

- BC26 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 BC23 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.
- BC27 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 statements; 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.
- BC28 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 BC 27, 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*

- BC29 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 statements are 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 statements audit or review.

DISCLOSURE OF FEES FOR AUDIT FIRMS' SERVICES  
(AMENDMENTS TO FRS-44)

- BC30 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.
- BC31 The NZASB decided not to include the disclosure requirement described in paragraph BC30 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;
  - (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 financial statements 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*

- BC32 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 statements are often low in value, and therefore, such fees may often not be disclosed due to materiality considerations. However, NZ IAS 1 *Presentation of Financial Statements* notes that "materiality depends on the nature or magnitude of information, or both."
- BC33 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 definition of materiality in NZ IAS 1. That is, it may be that "omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity".
- BC34 Given the importance of auditor independence to users of the financial statements, 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.
- BC35 The NZASB finalised the amendments in [April 2023].

DISCLOSURE OF FEES FOR AUDIT FIRMS' SERVICES  
(AMENDMENTS TO FRS-44)

**Illustrative Example**

*This example accompanies, but is not part of, FRS-44.*

**Disclosure of fees for audit firms' services**

IG1 The following example illustrates how an entity might satisfy the disclosure requirements in paragraph 8.3, including the specific disclosure requirements in paragraphs 8.20, 8.20A, 8.26 and 8.26A 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 statements, 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 compliance with debt covenants with respect to a number of the entity's loans. Consistent with the requirements in paragraphs 8.20, 8.20A, 8.26, and 8.26A, 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
<b>Audit [and/or review] of the financial statements</b>	xxx	xxx
<b>Audit or review related services</b>		
Review of adequacy of financial reporting systems and controls (assurance engagement)	xxx	xxx
Reporting on satisfaction of grant obligations (agreed-upon procedures engagement)	xxx	xxx
Reporting on compliance with debt covenants (agreed-upon procedures engagement)	xxx	xxx
<b>Total</b>	<b>xxx</b>	<b>xxx</b>
<b>Other assurance services and other agreed-upon procedures engagements</b>		
Greenhouse gas emissions (assurance engagement)	xxx	xxx
Adherence to cyber security procedures (assurance engagement)	xxx	xxx
Health and safety compliance (agreed-upon procedures engagement)	xxx	xxx
<b>Total</b>	<b>xxx</b>	<b>xxx</b>
<b>Total fees incurred for services provided by the audit firm</b>	<b>xxx</b>	<b>xxx</b>

**Part D – Effective Application Date**

This Standard shall be applied for annual periods beginning on or after [1 January 2024]. Earlier application is permitted.

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



## Disclosure of Fees for Audit Firms' Services

Issued [XX April 2023]

This Standard was issued on [XX April 2023] by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This Standard is secondary legislation for the purposes of the Legislation Act 2019, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [XX May 2023].

Reporting entities that are subject to this Standard are required to apply it in accordance with the application effective date, which is set out in Part D.

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

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

### Note for NZASB Members:

This is the draft amending standard *Disclosure of Fees for Audit Firms' Services* (Amendments to PBE IPSAS 1). We are seeking the Board's approval to finalise and issue this amending standard. This draft is based on the text of the 2022 Exposure Draft (ED) *Disclosure of Fees Paid to Audit Firms*, and has been updated for the following changes:

- Changes that the NZASB agreed on at its December 2022 and February 2023 meetings, to address matters raised by ED respondents – given the stage of this project, these changes are not marked up anymore; and
- additional changes made after the February 2023 meeting as a result of Board Members' feedback and feedback received from key stakeholders as part of the 'fatal flaw' review of the draft standard – these changes are marked up and highlighted in green (we will remove this shading before publishing the final standard).

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

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ISBN

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(AMENDMENTS TO PBE IPSAS 1)**CONTENTS**

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

## Part A – Introduction

This 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.

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 B – Scope

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

## 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 paragraph 154.14 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 firm<sup>1</sup>, 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.~~

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



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

### **Fees paid to 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 reports;<sup>2</sup> 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 services<sup>3</sup> 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 firm<sup>4</sup>, separately for:**
- (a) the audit or review of the financial reports (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 firms 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 entities<sup>5</sup>, the 'audit or review' firm will be the Controller and Auditor-General. When applying paragraph 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

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

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

<sup>4</sup> 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.

<sup>5</sup> 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 statement 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), 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), 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 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 reports***

- 116.11 Fees for the audit or review of the financial reports refer to the audit or review of the entity's general purpose financial reports, 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 reports; 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 reports are 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 reports have 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 reports include all the services performed by the auditor as required to enable them to issue an audit opinion or review conclusion on the financial reports 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).

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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 reports.

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 auditor or reviewer.

\*116.19A ~~This~~ Services classified in this category may include assurance services, ~~or non-assurance services,~~ such as agreed-upon procedures engagements, and other types of services, provided that the nature of the services with a nature that 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 they meet the description in paragraph 116.19.<sup>6</sup>

**\*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.**

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<sup>6</sup> This will include ~~specified~~ engagements required under the *Financial Markets Conduct Act 2013* to be performed by a qualified assurance practitioner.

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**\*116.22A 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 engagements concerning:

- (a) summary financial reports;
- (b) forecast financial reports;
- (c) reporting on whether processes, procedures, and controls relating to the financial reporting system are suitably designed and operating effectively;<sup>7</sup>
- ~~(d) compliance with banking covenants; and~~
- ~~(e) reporting on the satisfaction of grant obligations.~~
- (f) assurance engagements on solvency returns for insurance entities; and
- (g) 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 compliance with banking covenants and reporting on the satisfaction of grant obligations.

\*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.<sup>8</sup>

\*116.24A For the purpose of this Standard, 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.<sup>9</sup>

\*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), i.e. audit or review related services.

<sup>7</sup> 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.

<sup>8</sup> 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.

<sup>9</sup> This definition is based on paragraphs 4 and 6 of ISRS (NZ) 4400 *Agreed-Upon Procedures Engagements*.

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\*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.

\*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.

**\*116.28A. 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 compliance.

***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 reports.

**\*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:<sup>10</sup>

- (a) tax return preparation;
- (b) tax calculations to prepare accounting entries;
- (c) transfer pricing services;
- (d) tax planning and other tax advisory services;

<sup>10</sup> 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.

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- (e) tax services involving valuations; and
- (f) assistance in the resolution of tax disputes.

116.33 [Not used]

***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:<sup>11</sup>

- (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]

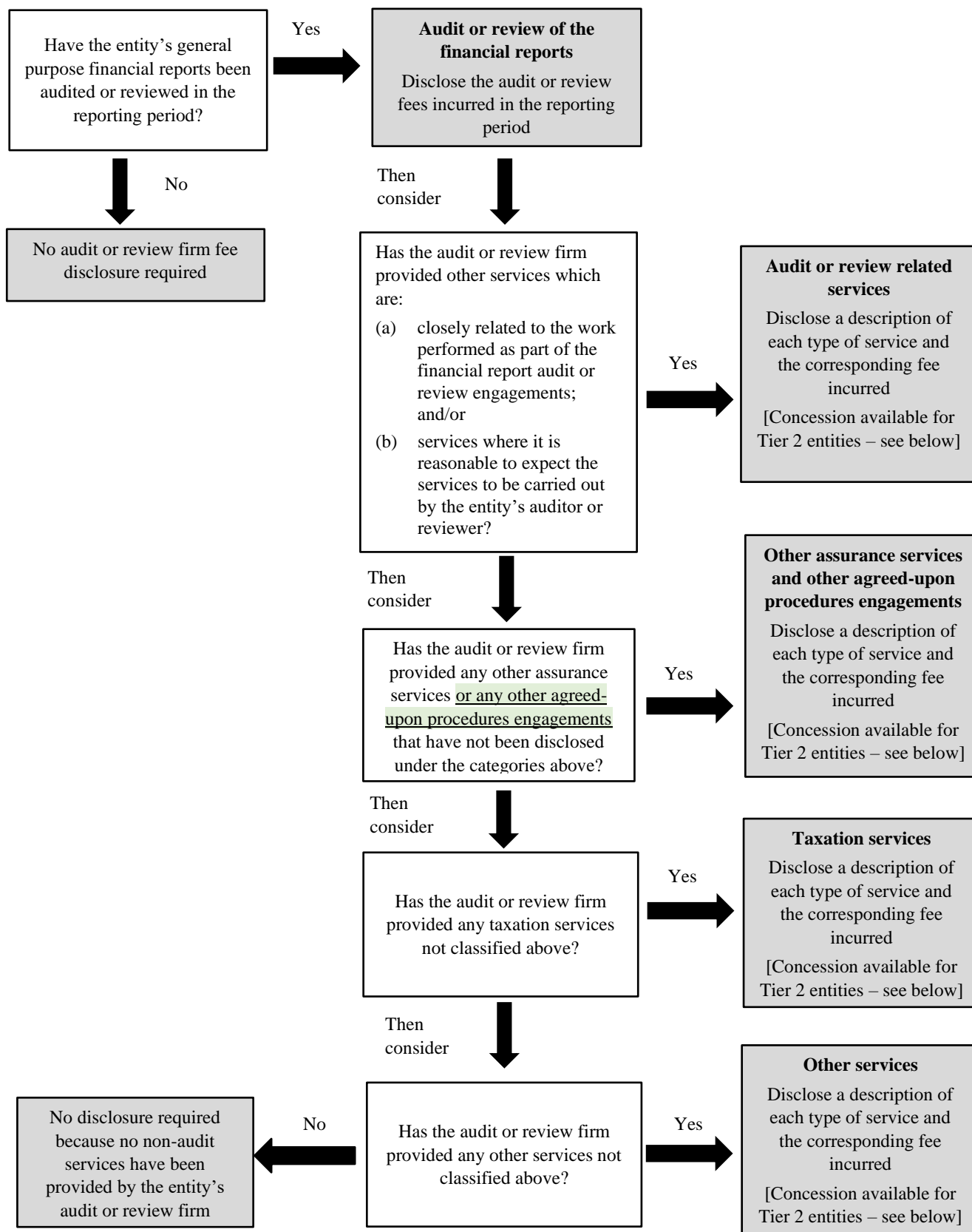
\*116.38 The flowchart on the next page illustrates the application of the disclosure requirements concerning fees incurred for services provided by audit or review firms.

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<sup>11</sup> 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.

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**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).

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- 154.14 *Disclosure of Fees Paid to for Audit Firms' Services*, issued in [April 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. An entity shall apply those amendments for annual financial reports covering periods beginning on or after [1 January 2024]. Earlier application is permitted.

In the PBE IPSAS 1 Basis for Conclusions, paragraph BC15-BC42 are added.

### Fees paid to for audit firms' services

- BC15 In June 2022 the NZASB issued ED 2020-10 *Disclosure of Fees Paid to Audit Firms* (Amendments to PBE IPSAS 1) to enhance the existing requirements concerning the disclosure of information about fees incurred by the reporting entity<sup>12</sup> during the reporting period for:
- (a) the audit or review of the entity's financial reports; 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 value of 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 and other assurance practitioners 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.

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



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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.
- 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

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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 BC 34, 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;
  - (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

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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 this 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].

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**Illustrative Example**

*This example accompanies, but is not part of, FRS-44.*

**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 compliance with debt covenants 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
<b>Audit [and/or review] of the financial report</b>	xxx	xxx
<b>Audit or review related services</b>		
Review of adequacy of financial reporting systems and controls (assurance engagement)	xxx	xxx
Reporting on satisfaction of grant obligations (agreed-upon procedures engagement)	xxx	xxx
Reporting on compliance with debt covenants (agreed-upon procedures engagement)	xxx	xxx
<b>Total</b>	<b>xxx</b>	<b>xxx</b>
<b>Other assurance services and other agreed-upon procedures engagements</b>		
<del>Greenhouse gas emissions (assurance engagement)</del>	<del>xxx</del>	<del>xxx</del>
Adherence to cyber security procedures (assurance engagement)	xxx	xxx
Health and Safety compliance (agreed-upon procedures engagement)	xxx	xxx
<b>Total</b>	<b>xxx</b>	<b>xxx</b>
<b>Total fees incurred for services provided by the audit firm</b>	<b>xxx</b>	<b>xxx</b>

**D – Effective Application Date**

This Standard shall be applied for annual financial reports covering periods beginning on or after 1 January 2024. ~~Earlier application is permitted.~~