



<b>Project:</b>	<b>Audit Engagement-related Disclosures</b>	<b>Meeting:</b>	M181
<b>Topic:</b>	<b>Auditor Remuneration Disclosures – project update</b>	<b>Agenda Item:</b>	6.1
		<b>Date:</b>	25 October 2022
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		<b>Decision-Making:</b>	Low
		<b>Project Status:</b>	Project update

## Objective of this agenda item

- 1 The objective of this agenda item is to provide the Board with an update on the progress of the recent New Zealand Accounting Standard Board (NZASB) Exposure Draft (ED) which proposes amendments to FRS 44 *New Zealand Additional Disclosure*.<sup>1</sup>

## Attachments

Agenda paper 6.2      NZASB Exposure Draft 2022-9 *Disclosure of Fees Paid to Audit Firms*  
(Proposed amendments to FRS-44) [Supporting Documents Folder]

## Background and reasons for bringing this paper to the Board

- 2 This project was added to the Board's work program in [February 2021](#) following feedback from stakeholders about auditor remuneration disclosures. The topic of auditor remuneration disclosures was also noted in the [final report](#) of the Parliamentary Joint Committee Inquiry into the Regulation of Auditing in Australia (PJC report) which was issued in November 2020 and is awaiting a formal government response. It is also a topic affected by trans-Tasman convergence.
- 3 In February 2021, the Board directed staff to develop an Exposure Draft amending the current auditor remuneration disclosures in AASB 1054 *Australian Additional Disclosures* based on the recommendations in the AASB Research Report 15 [Review of Auditor Remuneration Disclosure Requirements](#).
- 4 In June 2021, the Board considered a comparison of the audit and non-audit service categories recommended by AASB Research Report 15 with those suggested by ASIC and those proposed in ED 03/21 [Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants \(including Independence Standards\)](#) (the Code) issued by APESB in May 2021. At the same time, the Board acknowledged that it is appropriate to wait for the government's response to the PJC report recommendations before issuing an Exposure Draft. However, the Board agreed to continue deliberating proposals to amend AASB 1054.

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1 Whilst this paper focusses on the NZASB proposals that are relevant to for-profit entities, staff note that the NZASB also issued NZASB Exposure Draft 2022-10 *Disclosure of Fees Paid to Audit Firms* (Proposed amendments to PBE IPSAS 1), which proposes amendments to PBE IPSAS 1 *Presentation of Financial Reports* which applies to PBE entities in New Zealand. The proposals in NZASB ED 2022-10 are consistent with the proposals in NZASB ED 2022-9 and are summarised in Appendix A.

- 5 The NZASB acknowledged their intention to harmonise the enhanced disclosure requirements with Australia<sup>2</sup> in the future, and also the Board's decision to wait for a formal response to the PJC inquiry. However, subsequently, the NZASB decided to commence a project to develop enhanced auditor remuneration disclosures and issued two Exposure Drafts in June 2022.
- 6 Prior to the NZASB issuing the two Exposure Drafts, at its [June 2022 meeting](#), the Board noted a (then) [draft Exposure Draft](#) (draft ED) that was being developed by the NZASB. The draft ED proposed requiring disclosure of fees paid to an entity's auditor for various categories of services. At the time, the Board agreed that it would consider whether the New Zealand proposals would be a suitable base for developing an Australian Exposure Draft. Staff noted that the NZASB ED 2022-9 contained limited changes from the draft ED. Paragraphs 10–13 below outline the limited changes.<sup>3</sup>
- 7 The [AASB For-Profit Entity Standard-Setting Framework](#), which forms the basis for developing Australian Accounting Standards for for-profit sector entities, recognises that differences between Accounting Standards in Australia and New Zealand for for-profit entities should be minimised wherever possible to reduce the costs for entities operating trans-Tasman. If the NZASB proceed with its proposed amendments to FRS 44, trans-Tasman harmonisation would be compromised. This is because Tier 1 and Tier 2 reporting requirements in New Zealand would include more extensive disclosure requirements than the corresponding requirements in Australian Accounting Standards for for-profit entities.
- 8 Staff note that Australia and New Zealand currently require the same audit fee disclosures for for-profit entities preparing Tier 1 financial statements.<sup>4</sup> However, audit fee disclosures for for-profit entities preparing Tier 2 financial statements differ. In Australia, the disclosures for Tier 2 entities required by AASB 1060 *General Purpose Financial Statements – Simplified Disclosures for For-profit and Not-for-Profit Tier 2 Entities* are the same as those required by AASB 1054 for Tier 1 entities.<sup>5</sup> However, in New Zealand, for-profit entities preparing Tier 2 financial statements are **not** required to disclose any information about audit fees. Appendix A compares the current audit fee disclosure requirements and the proposed amendments.
- 9 At its June 2022 meeting, the Board also noted that in response to the domestic agenda consultation, several respondents suggested that the Board revisit the auditor remuneration disclosure requirements. In particular, respondents commented that the Board should consider providing better clarity on the appropriate period to be included for such disclosure<sup>6</sup>, the treatment of agreed fee adjustments in subsequent periods and whether disclosures should be made on an accrued or cash basis. Whilst not directly related to the categories of

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2 Paragraph BC14 of NZASB Exposure Draft 2022-9 *Disclosure of Fees Paid to Audit Firms* (Proposed amendments to FRS-44)

3 In its June 2022 meeting, the Board also noted draft guidance for audit committees prepared by the Australian Institute of Company Directors (AICD), which includes a recommendation to disclose information about the auditor's tenure every five years. The AICD and AUASB issued the joint guidance in September 2022 [Comprehensive Review of the External Auditor](#) to provide supplementary guidance on process matters where a formal review on audit quality by an incumbent auditor is prepared (e.g. every five years). The topic of audit tenure is beyond the scope of this paper, which only considers auditor remuneration disclosures. However, staff are continuing to monitor developments related to the disclosure of auditor tenure.

4 See paragraphs 10–11 in AASB 1054 and paragraphs 8.1–8.2 in FRS 44 for the respective disclosure requirements in Australia and New Zealand.

5 Paragraph 10 of AASB 1054 requires an entity to disclose fees to each auditor or reviewer, including any network firm, separately for (a) the audit or review of the financial statements; and all other services performed during the reporting period. Paragraph 11 requires an entity shall describe the nature of other services. (Paragraphs 98–99 of AASB 1060 set out the same disclosure requirements for Tier 2 entities).

6 For example, if an audit or non-audit engagement is performed across multiple financial reporting periods, in which period should the entity record the fees to auditor (i.e. should a cash or accrual basis be adopted and how does this affect disclosures).

disclosures currently being considered by the Board, this feedback highlights that auditor remuneration disclosures are an area of concern for stakeholders.

## Project update

- 10 The NZASB issued NZASB ED 2022-9 in June 2022.<sup>7</sup> NZASB ED 2022-9 proposes amendments to require entities to disclose fees incurred for services received from each audit or review firm, separately for:
- (a) the audit or review of financial statements of the financial statements;
  - (b) each type of other services performed by the entity's audit or review firm during the reporting period, using the following categories:
    - (i) audit or review related services;
    - (ii) other assurance services;
    - (iii) taxation services; and
    - (iv) other services.
- 11 NZASB ED 2022-9 proposes the same disclosure requirements for Tier 1 and Tier 2 entities in New Zealand, with limited exceptions.<sup>8</sup>
- 12 NZASB ED 2022-9 also proposes including a description of each type of service received, and the corresponding fees incurred for the reporting period. NZASB ED 2022-9 also includes a flowchart to illustrate how the proposed enhanced disclosures would apply.
- 13 While NZASB ED 2022-9 is largely consistent with the NZASB draft ED that the AASB noted in June 2022, there were some key changes, including:
- (a) further clarification on the disclosure objective (paragraph 8.2 of the NZASB ED 2022-9) and a footnote on the definition of non-audit services. The boxed text below shows the proposals in the published for-profit Exposure Draft with markup to reflect the changes made from the draft ED.

~~8.1 The objective of this disclosure is to provide information that enables users of general purpose financial statements to understand and consider the total fees incurred in the reporting period for:~~ 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.

- 7 At the [June 2022 AASB meeting](#), the Board noted the [draft ED](#) being developed by the NZASB to propose disclosure of fees for various categories of services performed by an entity's auditor. Paragraph 13 of this paper sets out the changes between the draft ED considered by the Board and NZASB ED 2022-9.
- 8 The proposed disclosure requirements for Tier 2 entities are consistent with those proposed for Tier 1 entities. However, Tier 2 entities are not required to make the following disclosures:
- Paragraph 8.31 – when fees for taxation 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 taxation services by the audit or review firm; and
  - Paragraph 8.35 – when fees for 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 the other services by the 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>2</sup> have been provided by the entity's audit or review firm in the reporting period.

Footnote 2: The reference to 'non-audit services' includes any service that does not form part of the entity's financial statement audit or review engagement.

- (b) removing the reference to materiality in relation to separate disclosure of the fee for each type of other service (paragraph 8.7 of the draft ED) as below:

~~8.7 An entity need not provide the separate disclosure of the fee for each type of other service, as required by paragraph 8.2(b), if the information resulting from the separate disclosure is not considered material. Materiality considerations should be based on both the monetary amount of the fees and the nature of the services. An entity is required to apply materiality judgements when making decisions about what information to disclose.~~

- 14 Staff have also continued the discussion with Australian stakeholders, including AUASB and APESB staff, for their views on NZASB proposals.
- 15 Comments on the NZASB Exposure Draft closed on 30 September 2022. Staff understand that NZASB staff are currently analysing the feedback received on the Exposure Draft, and AASB staff intend to obtain an update from the NZASB staff in due course.

### Next Steps

- 16 Staff intend to continue:
- (a) monitoring the progress of the NZASB project. Staff will provide Board members with a project update at a future meeting, including
- (i) a summary of feedback received on NZASB ED 2022-9; and
  - (ii) an analysis of the possible effect of the New Zealand proposals in Australia, including considering their suitability as a basis for an Australian Exposure Draft; and
- (b) liaising with representatives from relevant parties, including APESB, AICD and AUASB to monitor the work undertaken in the area.

### Question for Board members

Q1: Do Board members have any comments on the project update?

## Appendix A Current and proposed amendments to audit fee disclosures

	Current requirements in Australia	Current requirements in New Zealand	Proposed amendments in the NZASB Exposure Drafts
Tier 1	<p>For both for-profit and not-for-profit entities:</p> <p>Extract from AASB 1054 <i>Australian Additional Disclosures</i> Audit Fees</p> <p>10 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.</p> <p>11 For paragraph 10(b) above, an entity shall describe the nature of other services.</p>	<p><b>For-profit entities:</b></p> <p>Extract from FRS-44 <i>New Zealand Additional Disclosures</i></p> <p>For-profit</p> <p>*8.1 An entity shall disclose fees to each auditor or reviewer, including any network firm, separately for:</p> <p>(a) the audit or review of the financial statements; and</p> <p>(b) all other services performed during the reporting period.</p> <p>*8.2 For 8.1 (b) above, an entity shall describe the nature of other services.</p> <p><b>Public Benefit Entities</b></p> <p>Extract from PBE IPSAS 1 <i>Presentation of Financial Statements</i></p> <p>*116.1 An entity shall disclose fees to each auditor or reviewer, including any network firm,<sup>1</sup> separately for:</p>	<p>For both for-profit and not-for-profit entities:</p> <p>An entity shall disclose the fees incurred for services received from each audit or review firm<sup>9</sup>, separately for:</p> <p>(a) the audit or review of the financial reports;</p> <p>(b) each type of other service performed by the entity's audit or review firm during the reporting period, using the following categories:</p> <p>(i) audit or review related services;</p> <p>(ii) other assurance services;</p> <p>(iii) taxation services; and</p> <p>(iv) other services.</p> <p>Paragraph [above] requires the separate disclosure (under specified categories) of the fees incurred for services received from:</p> <p>(a) the entity's audit or review firm; and</p> <p>(b) each other audit or review firm involved in any element of the audit or review of the entity's financial reports, including the controlled entities' financial reports when consolidated financial reports are presented.</p>

9 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.

	Current requirements in Australia	Current requirements in New Zealand	Proposed amendments in the NZASB Exposure Drafts
		<p>(a) the audit or review of the financial statements; and</p> <p>(b) all other services performed during the reporting period.</p> <p>*116.2 To comply with paragraph 116.1 above, an entity shall describe the nature of other services.</p> <p><sup>1</sup> Network firm is discussed in Professional and Ethical Standard (PES) 1 (Revised) <i>Ethical Standards for Assurance Practitioners</i>.</p>	
Tier 2	Same as Tier 1 disclosure requirements above (see paragraphs 98–99 in AASB 1060)	Not required to comply the audit fee disclosure requirements.	<p>Same as Tier 1 above, with exception that (for both for-profit and PBE entities) the following disclosures are not required:</p> <ul style="list-style-type: none"> <li>• When fees for taxation 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 the other services by the audit or review firm.</li> <li>• When fees for 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 the other services by the audit or review firm.</li> </ul>