



<b>Project:</b>	<b>Audit Engagement-related Disclosures</b>	<b>Meeting</b>	AASB June 2022 (M188)
<b>Topic:</b>	<b>Project update</b>	<b>Agenda Item:</b>	5.0
		<b>Date:</b>	6 June 2022
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		<b>Decision-Making:</b>	Medium
		<b>Project Status:</b>	Provide update

### The objective of this agenda item

- 1 The objective of this agenda item is for the Board to receive an update on progress on relevant related projects and discussions, including:
  - (a) recent New Zealand Accounting Standard Board (NZASB) proposed draft amendments to FRS 44 *New Zealand Additional Disclosure* and to PBE IPSAS 1 *Presentation of Financial Reports* ,
  - (b) draft Australian Institute of Company Directors (AICD) guidance; and
  - (c) the Australian Professional and Ethical Standards Board (APESB) project on ED 03/21 *Proposed Amendments to Fee-related provisions of APES 110 Code of Ethics for Professional Accountants*.

### Attachments

- 2 Agenda paper 5.1 NZASB Board paper *Disclosure of Fees Paid to Audit Firms* including Proposed amendments to FRS 44 *New Zealand Additional Disclosure* (Appendix 1) and Proposed amendments to PBE IPSAS 1 *Presentation of Financial Reports* (Appendix 2)

## Background

- 3 The [final report](#) of the Parliamentary Joint Committee *Inquiry into the Regulation of Auditing in Australia* (PJC report) was issued in November 2020 and is awaiting a formal government response. Three key recommendations relevant to the AASB relating to audit tenure and auditor remuneration were identified (PJC recommendation 3<sup>1</sup>, recommendation 5<sup>2</sup> and recommendation 6<sup>3</sup>).
- 4 At its [February 2021 meeting](#), the Board directed staff to develop an Exposure Draft amending the current disclosures on auditor remuneration in AASB 1054 *Australian Additional Disclosures* based on the recommendations in the AASB Research Report 15 [Review of Auditor Remuneration Disclosure Requirements](#).
- 5 [At its June 2021 meeting](#), the Board considered a comparison of audit and non-audit service categories recommended by AASB Research Report 15 with those suggested by ASIC and those proposed in the 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. The Board acknowledged that ED 03/21 defines the services within each category but noted that APES 110 provides guidance rather than mandatory requirements.
- 6 The key proposed amendments to the Code included:
  - (a) amendments to the current version of the fee-related provisions of the Code based on the IESBA amendments;
  - (b) providing information on the different categories of services that an auditor may provide;
  - (c) broadening the requirement for audit partners not to be incentivised, either directly or indirectly, for selling non-assurance services to their audit clients to now prohibit incentivisation for sales of non-assurance services to any audit clients of the firm; and
  - (d) addition of a threshold to assess fee dependency on a referral source that refers multiple audit clients to a firm, an individual partner or an office within the firm.<sup>4</sup>
- 7 The Board acknowledged that it is appropriate to wait for the government's response to the PJC report recommendations before issuing its ED. However, in the interim, the Board will continue deliberating the proposals to amend AASB 1054.
- 8 At the same meeting, the Board also considered options for disclosing auditor tenure in response to recommendation 6 of the PJC report relating to disclosure of the audit tenure. The Board received an update on work undertaken by other stakeholders, such as the Australian Institute of Company Directors (AICD) and considered the position of the Australian Auditing and Assurance Standard Board (AUASB) and professional bodies.
- 9 AICD was developing guidance for the Board of Directors that would encourage the disclosure of the audit tenure in the Directors' Report. AICD suggested that listed entities (e.g. ASX200) would voluntarily adopt this guidance for 2022–23. AICD intended to seek the incorporation of the guidance into the ASX Corporate Governance Principles at a later date.

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1 Recommendation 3: The committee recommends that the Financial Reporting Council, in partnership with ASIC, by the end of the 2020–21 financial year, oversee consultation, development and introduction under Australian standards of:

- a) defined categories and associated fee disclosure requirements in relation to audit and non-audit services; and
- b) a list of non-audit services that audit firms are explicitly prohibited from providing to an audited entity.

2 Recommendation 5: The committee recommends that the APESB consider revising the Code to include a safeguard that no audit partner can be incentivised, through remuneration advancement or any other means or practice, for selling non-audit services to an audited entity.

<sup>3</sup> The committee recommends that the Financial Reporting Council, by the end of the 2020–21 financial year, oversee the revision and implementation of Australian standards to require audited entities to disclose auditor tenure in annual financial reports. Such disclosure should include both the length of tenure of the entity's external auditor, and of the lead audit partner.

<sup>4</sup> However, item (d) is not related to the PJC recommendations. It is based on regulatory concerns in the SMSF sector and it is an Australian specific issue.

- 10 After considering the work undertaken by other bodies, the Board decided not to propose amendments to Australian Accounting Standards to require auditor tenure disclosure at this stage but to continue monitoring the work carried out by the AICD regarding listed entities.

### **Project update**

- 11 AASB staff have continued liaising with the representatives from relevant parties, including NZASB staff, APESB and AICD to monitor the work undertaken in these two areas. A summary of progress on relevant related projects and discussions is noted below.

#### APESB and summary of feedback received to ED 03/21

- 12 The comment period on APESB ED 03/21 closed in August 2021. The [feedback received by APESB](#) highlighted that whilst the stakeholders generally support the improvement of audit fee disclosures and the proposed categories, they prefer APESB to work together with AASB on this project to ensure consistency of disclosure requirements.
- 13 In response to this ED, AASB made a [submission to APESB](#) highlighting an AASB project, which proposed to amend AASB 1054 to address fee disclosure requirements for defined categories of audit and non-audit services. AASB suggested to continue liaising with APESB to help ensure consistency of any issued guidance.
- 14 In general, there was a consensus from respondents that the preparers need to disclose the fee categories. However, few stakeholders expressed views to APESB that the requirement to disclose the fees should be addressed to those charged with governance.
- 15 As there is a current AASB project, some respondents were of the view that such disclosures should be required by the accounting standards.
- 16 Taking into consideration the respondents' comments, [APESB decided](#), at its March 2022 meeting, to defer the inclusion of audit fee categories in the Code to align with the project undertaken by AASB.

#### NZASB update

- 17 At its [December 2021 meeting](#), NZASB agreed to commence a project to develop enhanced audit fee disclosure requirements by proposing amendments to its domestic standards for for-profit and public benefit entities. NZASB had previously agreed to complete this project in conjunction with AASB but, at the December 2021 meeting, decided to issue proposals ahead of the AASB completing its auditor remuneration disclosure project.
- 18 At its April 2022 meeting, NZASB considered and provided feedback on proposals to introduce enhanced disclosure requirements about fees paid by the reporting entity for the audit or review of the financial statements and other services provided by the audit firm.
- 19 The proposed categorisation of the services provided by the auditor is aligned with the categories proposed in AASB Research Report 15 and in APESB ED 03/21.
- 20 The proposed categories for disclosing the total fees paid to each audit or review firm are as follows:
  - (a) Fee for audit and assurance services:
    - (i) Financial statement audit or review engagement;
    - (ii) Audit-related or review-related services; and
    - (iii) Other assurance services.

- (b) Fees for non-assurance services
  - (i) Taxation services; and
  - (ii) Other non-assurance services.
- 21 NZASB proposal further includes description of individual categories whilst APESB ED 03/21 included examples of engagements, that could fall within the described categories. AASB Research Report 15 did not provide any details on individual categories.
- 22 At its May 2022 meeting, NZASB agreed to issue the ED *Fees Paid to Audit Firms* subject to final amendments being reviewed by selected Board members and the Chair. The ED is expected to be issued before 30 June 2022.

#### **Question 1 to the Board**

Considering the latest developments relating to **audit fee disclosure**, does the Board wish staff to undertake any further work on the audit fee disclosure project whilst waiting for the government response to the PJC recommendations?

#### AICD update

- 23 AICD has prepared draft guidance for Audit Committees on how to assess the auditor. This draft is currently being consulted with stakeholders, including AUASB, audit firms and ASIC. The guidance focuses mainly on a comprehensive review of the performance of the auditor over a length of time, which would be undertaken every five years. The draft guidance also requires entities to publicly disclose auditor tenure.
- 24 AICD has not yet commenced any discussion with the ASX Corporate Governance Council about incorporating the guidance into ASX Corporate Governance Principles.

#### **Question 2 to the Board**

Does the Board have any questions or comments in relation to the AICD draft guidance for **auditor tenure disclosure**?