



## **NZASB EXPOSURE DRAFT 2022-9**

### **Disclosure of Fees Paid to Audit Firms**

#### **Issued [Date]**

This [draft]<sup>1</sup> Standard was issued on [Date] by the New Zealand Accounting Standards Board of the External Reporting Board pursuant to section 12(a) of the Financial Reporting Act 2013.

This [draft] Standard is a disallowable instrument for the purposes of the Legislation Act 2019, and pursuant to section 27(1) of the Financial Reporting Act 2013 takes effect on [Date].

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

In finalising this [draft] 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 [draft] Tier 1 and Tier 2 for-profit standard requires an entity to describe the services provided by the audit firm and to disclose the fees paid by the entity for those services.

---

<sup>1</sup> References to “this Standard” throughout this Exposure Draft should be read as referring to “this draft Standard”.

DISCLOSURE OF FEES PAID TO AUDIT FIRMS  
(AMENDMENTS TO FRS-44)

COPYRIGHT

© External Reporting Board (XRB) 2022

This XRB Standard contains copyright material.

Reproduction in unaltered form (retaining this notice) is permitted for personal and non-commercial use subject to the inclusion of an acknowledgement of the source.

Requests and enquiries concerning reproduction and rights for commercial purposes within New Zealand should be addressed to the Chief Executive, External Reporting Board at the following email address: [enquiries@xrb.govt.nz](mailto:enquiries@xrb.govt.nz)

ISBN

DISCLOSURE OF FEES PAID TO AUDIT FIRMS  
(AMENDMENTS TO FRS-44)

**CONTENTS**

	<i>from page</i>
<b>PART A: INTRODUCTION</b>	<b>4</b>
<b>PART B: SCOPE</b>	<b>4</b>
<b>PART C: AMENDMENTS TO FRS-44 <i>NEW ZEALAND ADDITION DISCLOSURES</i></b>	<b>4</b>
<b>PART D: EFFECTIVE DATE</b>	<b>12</b>

## 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 paid 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

---

...

### **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.~~

## Fees paid to audit firms

- 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>2</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>3</sup>, separately for:**
- (a) the audit or review of the financial statements (see paragraphs 8.9 – 8.16);**
  - (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 (see paragraphs 8.23 – 8.27);**
    - (iii) taxation services (see paragraphs 8.28 – 8.31); and**
    - (iv) other services (see paragraphs 8.32 – 8.35).**
- 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 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 other services in accordance with paragraph 8.3(b), is required only when the 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', and an 'assurance engagement', are based on the definitions of these terms as used in the professional and ethical standards issued by the New Zealand Auditing and Assurance Standards Board (NZAuASB).

---

<sup>2</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>3</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 PAID TO AUDIT FIRMS  
(AMENDMENTS TO FRS-44)

- 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 Examples of services that do not form part of the financial statement audit or review engagement include the following.
- (a) Internal control advisory services outside the scope of the audit or review engagement.
  - (b) Consulting engagements regarding the implementation of new accounting standards and reporting requirements.
  - (c) Internal audit services.
  - (d) Risk management advisory services.

- (e) Due diligence procedures performed in connection with merger and acquisition procedures.
- (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.

### **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 – 8.16; and/or
  - (b) services where it is reasonable to expect the services to be carried out by the entity's auditor or reviewer.
- 8.18 Audit or review related services include those services that are largely carried out by members of the financial statement audit or review engagement team and generally rely significantly 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 the services are closely related to the work performed as part of the financial statement audit or review engagement and/or where it is reasonable to expect the services to be carried out by the auditor or reviewer of the entity's financial statements.<sup>4</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.**

- 8.21 Examples of types of audit or review related services 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>5</sup>
  - (d) compliance with banking covenants; and
  - (e) 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>6</sup>

### **Other assurance services**

- 8.23 Other assurance services include any assurance service provided by an audit or review firm which have not been classified under categories 8.3(a) or 8.3(b)(i).
- 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.
- 8.25 This category includes assurance services that do not rely significantly on synergies in knowledge gained from undertaking the financial statement audit or review engagement.

---

<sup>4</sup> This will include specified engagements required under the *Financial Markets Conduct Act 2013* to be performed by a qualified assurance practitioner.

<sup>5</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>6</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.

**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**
- (b) disclose the total fees for each type of other assurance service.**

8.27 Examples of types of other assurance services include assurance engagements on:

- (a) greenhouse gas statements or other sustainability reports;
- (b) adherence to cyber/cloud security procedures; and
- (c) other regulatory assurance engagements which are not considered to be audit or review related services.

### **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) tax planning and other tax advisory services;
- (d) tax services involving valuations; and
- (e) assistance in the resolution of tax disputes.

\*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.

### **Other services**

8.32 Other services include any other services provided by the audit or review firm other than the services classified under categories 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;

---

<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.



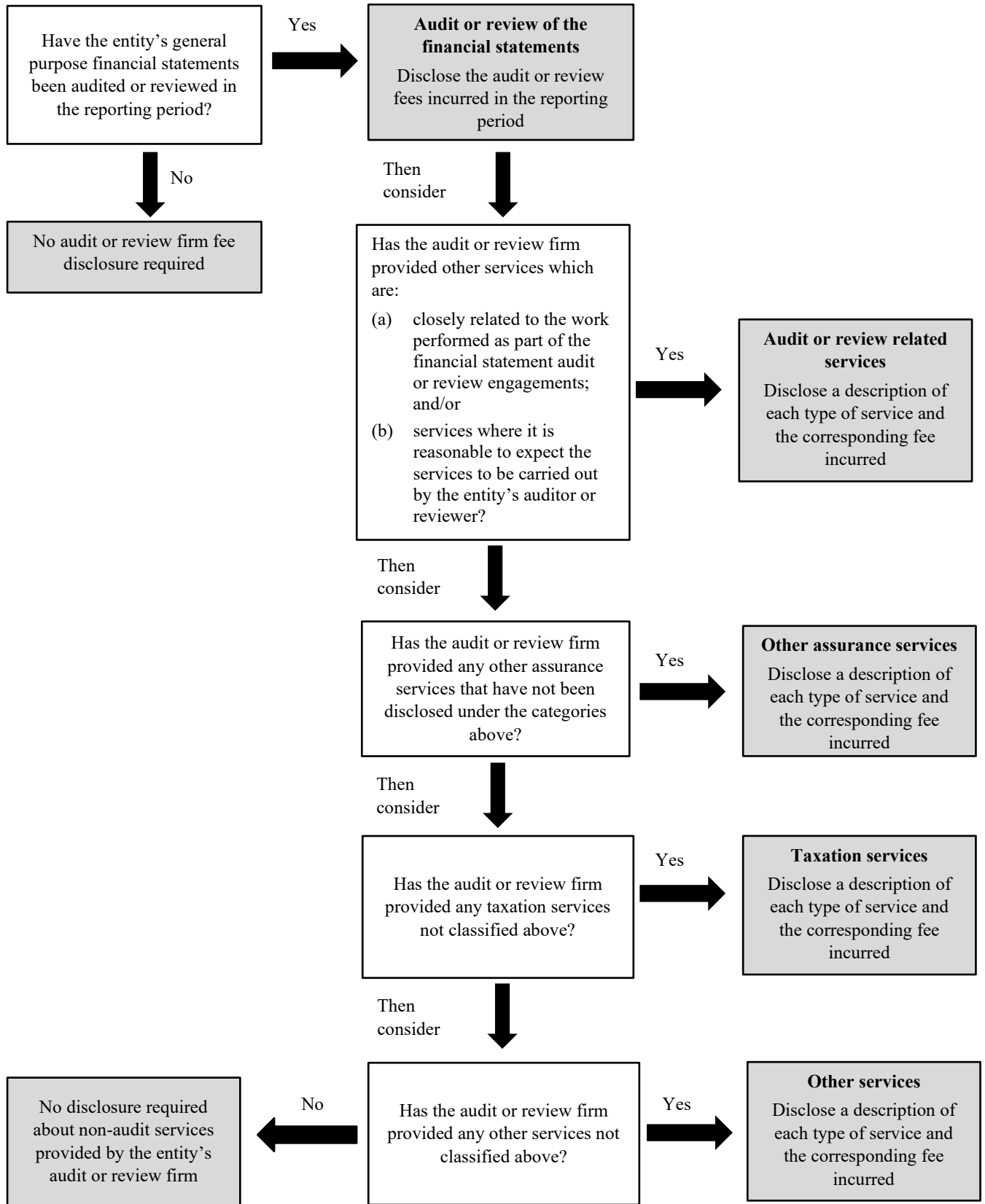
DISCLOSURE OF FEES PAID TO AUDIT FIRMS  
(AMENDMENTS TO FRS-44)

- (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 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.

8.36 The flowchart on the next page illustrates the application of the disclosure requirements concerning fees paid to audit or review firms.

**Application of disclosure requirements**



...

## Effective date

---

...

- 21 *Disclosure of Fees Paid to Audit Firms*, issued in [date], 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 ending on or after [date]. Earlier application is permitted.

In the NZASB FRS-44 Basis for Conclusions, paragraph BC7-BC15 is added.
---

## Fees paid to audit firms

- 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 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 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 PAID TO AUDIT FIRMS  
(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.

## **Part D – Effective Date**

This [draft] Standard shall be applied for annual financial statements covering periods beginning on or after [date]. Earlier application is permitted.