



Carolyn Cordery, Chair
New Zealand Accounting Standards Board
PO Box 11250
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29 September 2022

Exposure Draft NZASB 2022-10: Disclosure of fees paid to audit firms ('ED 2022-10')

Dear Carolyn

We appreciate the opportunity to comment on the proposed amendments to PBE IPSAS 1 *Presentation of financial reports* (ED 2022-10).

This response is on behalf of PricewaterhouseCoopers New Zealand (PwC NZ). References to "PwC", "we" and "our" refer to PwC NZ only. This submission is not made on behalf of the global network of member firms.

Overall comments

Overall, we broadly support the NZASB's proposed changes and believe they represent an appropriate response to:

- improve the consistency and transparency of information disclosed about fees paid to an entity's audit or review firm for different types of services
- 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 a reporting period.

Questions for respondents

Our responses to the specific questions raised in the ED are attached in Appendix A. We appreciate the opportunity to provide feedback on the ED. Please do not hesitate to contact me should there be any matters you would like to discuss further.

Yours sincerely

Jonathan Freeman
Audit Risk Management Partner



Appendix A

General disclosure requirement

Question 1

Do you agree with the proposal to require the disclosure of fees incurred for services received from each audit or review firm, using specified categories as specified in paragraph 116.3 of the ED?

Comment 1

Yes, this will improve the consistency and transparency of information disclosed about fees paid to an entity's audit or review firm for different types of services.

However, consideration should also be given to whether additional disclosure is required for services received or engaged before issuing the financial statements, where these services have not been included in the disclosure of fees incurred for services received. These services are also relevant to assessing the independence of the audit or review firm at the time they sign their auditor's report and, in our view, are required to obtain a better understanding of the nature and quantum of non-audit services. As these fees would not have been accrued in the period being audited or reviewed, these fees could be presented in a separate table, paragraph or footnote.

Auditors are required under ISA NZ 700 (Revised): *Forming an opinion and reporting on financial statements para NZ28.1* to include in the auditor's report a statement as to the existence of any relationship (other than that of auditor) which the auditor has with an entity. That relationship is up to the date of the auditor's report. Therefore if an auditor has undertaken other non-audit services between the date of the financial statements and the date of the auditor's report the auditor should disclose this in the auditor's report. This has led to auditors often asking entities to include a narrative disclosure regarding such services in the financial statements to ensure both align.

Description of categories and related guidance

Question 2

Do you agree with the proposed description and guidance for services that would be disclosed under the category *audit or review of the financial statements* (ED paragraphs 116.11 – 116.18)?

Comment 2

Yes

However, under paragraph 116.18 of the ED internal audit services are listed, which are generally prohibited from being performed by the auditor. We recommend that the Board revisits this list to ensure that items that would generally not be permitted services under PES 1 are excluded from the listed examples.



Question 3

Do you agree with the proposed description and guidance for services that would be disclosed under the category *audit or review related services* (ED paragraphs 116.19 – 116.24)?

Comment 3

Yes.

However, it would be helpful for the guidance to clarify that these related services may include non-assurance services, such as agreed upon procedures (AUP) engagements that are related to the audit or review or where it is reasonable to expect the AUP to be carried out by the entity's auditor or reviewer, otherwise it could be interpreted that these fall into the category of Other Services as currently drafted. Further, engagements relating to reporting to trustees as part of the audit could also be added to the guidance for this category.

Also, if applicable to PBE audits, we suggest that reasonable assurance engagements on solvency returns for insurance entities under ISAE (NZ) 3000/SAE 3100 are specifically included in this category.

Question 4

Do you agree with the proposed description and guidance for services that would be disclosed under the category *other assurance services* (ED paragraphs 116.25 – 116.29)?

Comment 4

Yes. However we question why paragraph 116.27 is needed. Paragraph 116.25 states that any assurance service provided is to be included in this category. Therefore paragraph 116.27 does not seem to have a valid purpose.

In paragraph 116.29 consideration should be given to including another example being: Assurance over prospective financial information. It is usual for a limited assurance report to be issued under ISAE 3000 on disclosure documents.

We recommend considering whether to either specifically include other agreed upon procedures (which are not already captured under the "*audit or review related services*" category) in this category or create a separate category for other agreed upon procedures altogether. We consider there are generally very limited independence threats due to the nature of these services as these are performed under a standard issued by the NZASB and are generally performed by assurance practitioners. Agreed upon procedures are different to taxation and other services and to include them in the other services category may therefore provide misleading information about the significance of non-audit independence threats. We consider other agreed upon procedures services to be more closely aligned to assurance services. If these services were to be included within other assurance services this category could be renamed to "Other assurance and other agreed upon procedures services".

Question 5

Do you agree with the proposed description and guidance for services that would be disclosed under the category *taxation services* (ED paragraphs 116.30 – 116.33)?

Comment 5

Yes. Consideration could also be given as to whether transfer pricing services provided by firms should be included as an example as this is a common service provided by tax practitioners.



Question 6

Do you agree with the proposed description and guidance for services that would be disclosed under the category *other services* (ED paragraphs 116.34 – 116.37)?

Comment 6:

Yes, however the type of services outlined in paragraph 116.36 should be compared to the restrictions on services that can be provided by auditors or reviewers under PES1.

Disclosure about managing possible threats to auditor or reviewer independence

Question 7

Do you agree with the proposal that when a Tier 1 entity incurs fees for *taxation services* or *other services* it 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 (ED paragraphs 116.33 and 116.37)?

Comment 7

No. For the following reasons:

ISA (NZ) 700 (Revised) paragraph NZ28.1 requires the auditor's report to include a statement on the existence of any relationship (other than that of auditor) which the auditor has with, or any interests which the auditor has in, the entity and paragraph NZ40(b)(1) requires the auditor to provide those charged with governance with a statement that the auditor has complied with relevant ethical requirements regarding independence and communicate with them all relationships and other matters that may reasonably be thought to bear on the auditor's independence, and where applicable, actions taken to eliminate threats or safeguards applied.

We believe that disclosure by an entity of 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, should be disclosed in the corporate governance section in the annual report rather than the financial statements. We do not regard this as a financial statement reporting matter.

Reduced disclosure regime

Question 8

Do you agree that, except for the disclosure requirements in ED paragraphs 116.33 and 116.37, there should be no other disclosure concession for Tier 2 entities?

Comment 8

No. Tier 2 entities are entities which do not have public accountability as their stakeholders are not widely dispersed, which is the reason for allowing reduced disclosures.

Other services are required to be disclosed in the auditor's report, and as such users will be aware if other services have been provided by the audit firm. Given that Tier 2 entities' stakeholders are not widely dispersed, they will have the ability to obtain further information related to the non-audit services that they require.

The requirement for additional disclosure would also place an additional burden on Tier 2 entities to categorise the nature of each service and allocate the correct amount to each categorisation and will increase the auditor's time and costs for auditing these disclosures.

We therefore believe that Tier 2 entities should not be required to disclose the information set out in this exposure draft but that they could do so voluntarily.



Effective date

Question 9

Do you agree to an effective date of accounting periods commencing on or after 1 January 2024 (with earlier adoption permitted)?

Comment 9

Yes.

Other comments

Question 10

Do you have any other comments on the proposed enhanced disclosure requirements in the accompanying ED?

Comment 10

Consideration should be given to clarify that services provided by a firm for an entity includes the firms within its network, i.e. the definition of “firm” is the network.