

## NAS Paper Outline

- I. Introduction
  - a. Purpose of the paper
- II. Context
  - a. Importance of an audit in relation to public interest
  - b. Audit quality
  - c. Fundamental principles (Objectivity/Due Care – professional skepticism)
  - d. Independence in applying fundamental principles
  - e. Advantages/disadvantages to auditors providing certain NAS – can threaten independence or increase quality of audit
  - f. Global crisis, inspection findings, corporate failures, including regulator & stakeholder views on independence
- III. NAS Issues
  - a. Relative size of NAS and audit fees
  - b. Loss of objectivity
  - c. Greater risk of auditing own work
  - d. Competence in a range of service – risk that auditor extended beyond expertise
  - e. Scope to affect audit relationship – performance issue of NAS or awarding of NAS threatens relationship
  - f. External perception – acting as management, investor confidence
  - g. Choice – is allowing auditor to perform NAS in public interest
  - h. Competing interests of different audiences – interests of those outside the client in audit and interest of those inside the client in NAS
  - i. Scope creep and aggregation/accumulation of various services
  - j. Business model in relation to NAS sales – availability of audit services, firms declining audits in order to retain NAS, increase risk of audit fee being loss leader, protecting the value of the audit
  - k. Tax, valuation, internal audit
- IV. Development of Code
  - a. Discuss due process in standard setting (open meetings, comment process) – oversight by CAG and PIOB
  - b. Outside processes – outreach – obtaining input from regulators, professional bodies, and the corporate management, those charged with governance, investors

- c. Board make up, informed judgments made in the public interest (considerations of various stakeholders beyond investors) based on experience, awareness of circumstances and explicit assumptions
  - d. Board awareness and ongoing consideration of international developments in planning work strategy plan – Green Paper, speakers, PCAOB, etc. benchmarking
  - e. Briefly mention changes to Code (IND I & II)
- V. How Code Addresses Issues
- a. Conceptual framework approach – principles-based Code, addresses threats to principles with safeguards
  - b. Management responsibility – must not accept management responsibility
  - c. How NAS are addressed – intent to be same process for each service
    - i. NAS are identified/described
    - ii. Apply conceptual framework and analyze threat
    - iii. Based on analysis determine level of threats:
      - 1. No threats/services that are generally permitted
      - 2. Threats may be mitigated by safeguards
      - 3. Threats so significant NAS is prohibited
  - d. Current criteria – materiality, PIEs, non-PIEs, third party test, responsibility of identifying threats
- VI. Analysis and Conclusions
- a. Code's principles-based approach appropriate
    - i. Not every situation can be addressed
    - ii. Global Code for local adoption
  - b. Balancing different aspects of the public interest – independence contrasted with the potential for better financial reporting (SMEs)
  - c. Addressing specific issues of NAS (as set out in Section III of the paper)
    - i. Tax
    - ii. Valuation
    - iii. Internal audit
- VII. Matters for Further Consideration
- a. Structural issues including the visibility and clarity of requirements
  - b. Appropriateness and robustness of safeguards
  - c. NAS in the aggregate

- d. Informed management
- e. Those charged with governance
- f. Fee caps
- g. Disclosure
- h. Management responsibility as more prominent overarching principle