

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