



Board Meeting Summary Paper

Subject: Service Organisations – Revision of
GS 007 *Audit Implications of the Use of
Service Organisations for Investment
Management Services*

Date: 6 April 2011

AUASB AGENDA ITEM NO. 7
Meeting Date: 18-19 April 2011

X Action Required

For Information Purposes Only

Agenda Item Objectives

To consider the proposed disposition of comments received from the 2010 consultation, 2009 consultation and earlier feedback on GS 007.

Background

Feedback was sought in both 2009 and 2010 from stakeholders on issues arising from the implementation of GS 007, issued in March 2008. The responses received from the 2010 consultation were presented to the Board at the February 2011 meeting.

Matters to Consider

A Project Advisory Group was formed to consider the comments received and to advise on the revision of GS 007. GS 007 revisions will address both those comments and the changes to the standards to which GS 007 is anchored following the issue of the clarity suite of standards. The PAG, chaired by Board Member Bernie Szentirmay, met in March 2011 and discussed how the comments received may be addressed in revisions to GS 007.

The comment letters received pursuant to the 2010 consultation and comment letters from 2009 consultation and prior have been summarised in Agenda Items 7.1 (2010) and Agenda Item 7.2 (2008 & 2009). Agenda items 7.1 and 7.2 also note the proposed approach to addressing those comments through revisions to GS 007 as discussed with the PAG.

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The AUASB Technical Group, considering the PAG's advice, recommend that the key matters raised in the comment letters are addressed in the revisions to GS 007 as follows:

1. Description of the system: The service organisation's controls report to include management's description of the system and, if relevant, controls at the sub-service organisation. This is addressed in ASAE 3402. This will provide a context to the user auditor in understanding the relevance of the controls reported and in understanding the significance of any sub-service organisations.
2. 'One-stop shop': Retain comprehensive guidance which is relatively stand-alone. This means that whilst the guidance is anchored to the requirements in the AUASB Standards, constant reference to those standards should not be necessary when using GS 007.
3. Exception reporting & modifications: Further guidance on errors, exceptions and control weaknesses reported by the service auditor or a modified report, in particular how the user auditor addresses those matters in auditing the user entity's financial report. Consideration of further commentary which may be needed in the service auditor's report.
4. Exclusive method: Where the exclusive method for sub-service organisations is applied, the monitoring controls at the service organisation will need to be described.
5. Conflicts of interest: Where multiple services are provided by the service organisation, additional controls will be needed to manage conflicts of interest.
6. International service organisations: Guidance to be provided on use of service auditor's reports provided under other jurisdictions.
7. Emphasis of Matter: Emphasis of matter paragraphs to be added to service auditor's reports on assertion or on a statement if they are prepared under a special purpose framework.
8. Timing of reports: Acknowledgement of the timing issues caused by service auditor's reports being issued for 30 June period ends.
9. IDPS: Guidance on application of ASIC Class Order 02/294.

The comment letters also provided a number of recommendations for amendments to control objectives which will be addressed in the revisions.

The Board is asked to consider whether it is still appropriate for the revised GS 007 to be operative for periods commencing 1 July 2011 if issued in June 2011.

The Board is also asked to provide any comment on the proposed approach.

Staff Recommendations

A revised GS 007 will be prepared on the basis of the approach outlined and presented for approval at the June Board meeting. The Technical Group recommend that GS 007 be revised to reflect the approach outlined in the attached agenda items 7.1 and 7.2 and that it still be issued as operative for periods commencing 1 July 2011.

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Material Presented

- Agenda Item 7 Board Meeting Summary Paper
- Agenda Item 7.1 Summary of Comments Received on GS 007 from 2010 Consultation
- Agenda Item 7.2 Summary of Comments Received on GS 007 from 2008 & 2009 Consultation

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