

14 February 2011

The Chairman  
Auditing and Assurance Standards Board  
PO Box 204  
Collins Street West  
MELBOURNE VIC 8007

Via email: [enquiries@auasb.gov.au](mailto:enquiries@auasb.gov.au)

Dear Ms Kelsall

**GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services***

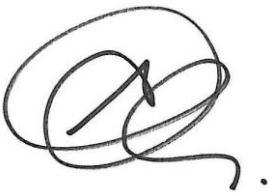
Thank you for the opportunity to provide feedback on the implementation of GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*. CPA Australia, The Institute of Chartered Accountants (The Institute) and the National Institute of Accountants (the Joint Accounting Bodies) have considered our members' feedback.

The Joint Accounting Bodies represent over 180,000 professional accountants in Australia. Our members work in diverse roles across public practice, commerce, industry, government and academia throughout Australia and internationally.

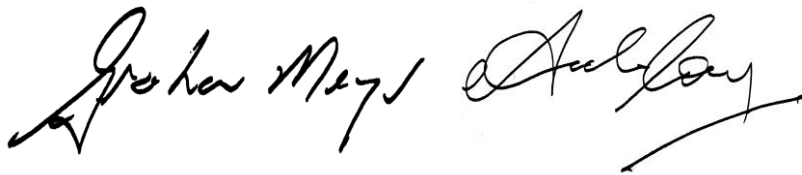
Our feedback and responses are included in the attached Appendix.

The Joint Accounting Bodies are committed to assisting where possible in the development and implementation of the highest quality Australian auditing and assurance standards. We hope that the comments provided are of assistance to the AUASB. If you have any questions regarding this submission, please do not hesitate to contact either Amir Ghandar (CPA Australia) at 02 9375 6244, Andrew Stringer (Institute) at 02 9290 5566, or Tom Ravlic (NIA) at 03 8665 3143.

Yours sincerely



**Alex Malley**  
Chief Executive Officer  
CPA Australia Ltd



**Graham Meyer**  
Chief Executive Officer  
Institute of Chartered  
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**Andrew Conway**  
Chief Executive Officer  
National Institute of  
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Representatives of the Australian Accounting Profession



[cpaaustralia.com.au](http://cpaaustralia.com.au)



The Institute of  
Chartered Accountants  
in Australia

[charteredaccountants.com.au](http://charteredaccountants.com.au)



[nia.org.au](http://nia.org.au)

### Overall Observations

Entities are rapidly increasing the use of service organisations for activities that were traditionally carried out internally. Further, the range of services being outsourced continues to be extended, all of which contributes to the increasing complexity of relationships between service organisations and their customers.

An added complication is that it is becoming more common for the service organisation to be located in another country. While arrangements such as these normally are entered into for sound economic and commercial reasons, they can result in challenges for the auditor of the user entity.

Among the challenges is ready access to assurance reports prepared by the assurance provider of the service entity. Problems can be exacerbated when management of the user entity has inadequate oversight procedures of the service provider.

Guidance Statement GS 007 is generally helpful to auditors in addressing many of the complexities that may arise when entities outsource activities to service organisations.

### Suggestions

1. The Guidance Statement as currently titled suggests that it is applicable only to the use of service organisations for investment management services. Paragraph 11 provides the only indication to users that it may also be useful in situations where other services are provided by a service organisation. Given the foregoing comments we suggest that the title of a revised Guidance Statement be clear that it is generic and applicable to all outsourced service activities.
2. A challenge for user auditors is that they may place inadvertent or inappropriate reliance on the controls over the activities being conducted by the service organisation. While the current Appendix 2 contains controls objectives for each investment management service, the Guidance Statement's usefulness would be enhanced by providing illustrative examples of the types of outsourcing arrangements that may be encountered. Having practical examples would assist practitioners and reduce the risks of the impact of outsourced service arrangements not being considered.
3. Paragraph 143 contains the following: "*The service auditor applies a percentage to the benchmark as a starting point in determining materiality under ASA 320. In the absence of a materiality specified by the user auditor, the service auditor may apply a percentage of 0.5% to any of the benchmarks listed in paragraph 142 as a reasonable basis for determining quantitative materiality for auditing specified assertions or a Statement, where investment management services are provided. Where an alternative benchmark is used, this percentage may not be appropriate for determining materiality.*"

It is unusual for a standard or guidance statement issued by the AUASB to contain indicative percentages for determining materiality. If this is considered to be a reasonable percentage for practitioners to use in these instances, the basis for this percentage should be included here. Alternatively the indicative percentage should be removed from the Guidance Statement.

4. The Guidance Statement makes reference to Type A and Type B Controls Reports where the relevant standard, ASA 402 *Audit Considerations Relating to an Entity Using a Service Organisation* refers to Type 1 and Type 2 Reports. We suggest that a revised Guidance Statement use terminology consistent with ASA 402 in this respect.