



Attachment to Board Meeting Summary Paper

Subject: ED 01/10 *Assurance Reports on Controls at a Service Organisation*
(ASAE 3402)
Prepared by: AUASB Technical Group
Date: 28 January 2010

ATTACHMENT 1

The Board is requested to consider and conclude on the following issues:

1. Issue: Engagements restricted to reasonable assurance only.

ISAE 3402 allows for reasonable assurance engagements only and does not provide for circumstances where a review of controls (limited assurance only) is sought. In contrast, GS 007 (paragraph 6) allows for the guidance to be adapted, as necessary in the circumstances, to a review engagement, which may be appropriate where the user auditor is engaged to conduct a review of the user entity's financial report. For example: if the user auditor is conducting a review under ASRE 2410 of the user entity's financial report for a half year under the *Corporations Act 2001*, the user auditor may require only a review of controls at the service organisation.

Furthermore, ASAE 3402 (paragraph 10) requires compliance with ASAE 3000 which, at paragraph 5, contemplates both reasonable and limited assurance engagements.

Questions: Is it appropriate to limit the proposed standard, ASAE 3402, to reasonable assurance engagements and not allow for limited assurance engagements, i.e.. reviews? Does the Board wish to allow for ASAE 3402 to be adapted, as necessary in the circumstances, to a review of controls at the service organisation?

Recommendation: The standard should be amended to allow for reviews of controls at the service organisation. Suggested wording in the introductory section:

Aus 2.1 *Although this standard only deals with assertion-based engagements that convey reasonable assurance, it should be applied as necessary in the circumstances, when the assurance practitioner is engaged to conduct a review of controls at the service organisation.*

2. Issue: Engagements restricted to assertion-based and not direct reporting

ISAE 3402 allows only for assertion-based engagements where the auditor reports on the responsible party's assertion, whereas AGS 1042 encompasses both assertion-based and direct reporting. Whether direct reporting engagements should be included in the standard was debated at length by the IAASB and the decision to restrict the standard to assertion-based was intended to protect the auditor's independence and in recognition of the fact that the auditor

requires suitable criteria against which to assess the service organisation's controls. In the absence of management's description of the service organisation's system and related control objectives and controls, the auditor would need to prepare the criteria themselves.

Questions: Is it appropriate to limit the proposed standard to assertion-based engagements? Does the Board wish to broaden the applicability of the standard to direct reporting engagements?

Recommendation: Retain the approach taken by the IAASB and limit the standard to assertion-based engagements. This approach will reinforce the service organisation's responsibility for the systems and controls in place and provide criteria against which the auditor may assess the controls in an independent manner.

3. **Issue:** Existing references to standards on performance auditing.

[See AGS 1042, paragraphs .38; .73; and .74 which refer to auditing standard AUS 806 *Performance Auditing* and paragraphs .38; .43; .57 which refer to auditing standard AUS 808 *Planning Performance Audits*.]

AGS 1042, paragraph .38 states:

The requirements of AUS 806 "Performance Auditing" and AUS 808 "Planning Performance Audits" are to be applied by the service entity auditor in an audit of the control structure relating to an outsourcing function(s), together with other AUSs adapted as necessary.

Proposed ASAE 3402, paragraph 10 requires the auditor to comply with ASAE 3000 and makes no mention of standards on performance or compliance engagements (for which there are no international equivalents). However, ASAE 3000 paragraph 6 requires the assurance practitioner to comply with "other relevant ASAEs". The link to ASAE 3100 and ASAE 3500 is therefore indirect.

Accordingly, with the issuance of ASAE 3402 in its proposed form, practitioners in Australia will no longer be specifically directed to comply with the requirements contained within standards on performance auditing (currently ASAE 3500 *Performance Engagements*, previously AUS 806 and AUS 808).

Questions: Does the Board require additional guidance in the "Application and Other Explanatory Material" of ASAE 3402 to assist practitioners in determining the extent to which ASAE 3500 and ASAE 3100 are to be applied? If so, what should the nature and extent of such guidance be?

Recommendation: No additional guidance required. The indirect link is sufficient. Guidance on the application of ASAEs 3100 and 3500 would, most likely, be limited to directing the practitioner to determine those requirements that are relevant to the engagement objective and if this is the case, there does not appear to be significant value in "adding" to ISRE 3402. More detailed guidance may result in:

- a. Repetition and overlap with ASAEs 3100 and 3500; and
- b. An unnecessary emphasis on ASAEs 3100 and 3500, especially the latter.

This document contains preliminary views and/or staff recommendations to be considered at a meeting of the AUASB, and does not necessarily reflect the final decisions of the AUASB. No responsibility is taken for the results of actions or omissions to act on the basis of reliance on any information contained in this document (including any attachments), or for any errors or omissions in it.

4. **Issue:** Appendices contained within AGS 1042

AGS 1042 contains 8 appendices whereas proposed ASAE 3402 contains 3, however ASA 402 (revised and redrafted) contains requirements and guidance relevant to the user auditor:

AGS 1042 Appendix		ASA 402; ASAE 3402; GS 007	
1	Examples of Outsourcing Services Which May Impact Financial Statement Assertions	ASA 402 Para.A3 & A4	Nature of the services provided by the service organisation
2	Example Engagement Letter	GS 007 Appendix 1	Example Engagement Letters
3	Example Management Representation Letter	-	-
4	Description of the Subject Matter, Control Objectives and Control Procedures	-	-
5	Example Accompanying Description of the Subject Matter and Internal Control Objectives and Procedures (Summary Level) and a Report by the Management of the Outsourcing Entity on its Internal Controls	-	-
6	Example Description of the Subject Matter and Internal Control Objectives and Procedures (Detail Level) and a Report by the Management of the Outsourcing Entity on its Internal Controls	-	-
7	Example of an Unqualified Attest Audit Report	ASAE 3402 Appendix 2	Example Service Auditor's Assurance Reports
8	Example of an Unqualified Direct Audit Report	-	-
		ASAE 3402 Appendix 1	Example Service Organisation's Assertions
		ASAE 3402 Appendix 3	Example Modified Service Auditor's Assurance Reports

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Question: Does the Board agree that the AGS 1042 appendices (listed above) do not need to be updated and included in proposed ASAE 3402 for the following reasons?

- a. AGS 1042 Appendix 1 is merely a short list of outsourcing services which is already addressed in ASA 402 (revised and redrafted) paragraphs A3 and A4.
- b. AGS 1042 Appendices 2 and 3 can be considered covered by the principles in ASA 210 and ASA 580 and the requirements in ASAE 3000 and ASAE 3402. We note that GS 007 Appendix 1 Section A does provide an example engagement letter for a service auditor's controls report.
- c. AGS 1042 Appendices 4, 5 and 6 are descriptions of systems and controls by the service organisation. As the form and content of such descriptions cannot be imposed on service organisations; and will vary extensively according to the circumstances, such examples will not add significant value to the standard. ASAE 3402 paragraph 16 describes what the service auditor can expect the description of the service organisation's system to contain, which covers the subject matter of these appendices without providing examples of how management should set out that description. In addition, ASAE 3402 Appendix 1 provides example service organisation assertions regarding the service organisation's description of the systems and controls.
- d. AGS 1042 Appendix 8 relates to *direct* reporting, however, the auditor's objectives, stated in paragraph 8 of ASAE 3402, relate only to *attest* engagements where the service organisation "describes" their systems, controls etc. Accordingly, this example is not applicable to the new standard.

5. **Issue:** AGS 1042 is currently operative.

Questions:

- a. Are there any other aspects of AGS 1042 that are necessary for inclusion in the guidance material of proposed ASAE 3402?
- b. Are there any reasons why AGS 1042 should not be withdrawn from the date ASAE 3402 becomes operative?

Recommendation: There is no guidance material in AGS 1042 that should be included in proposed ASAE 3402—AGS 1042 should be withdrawn.