



Board Meeting Summary Paper

AUASB
AGENDA
ITEM NO.

6.2(a)

Meeting Date:
22 February

2010

Subject: Approval of ED 01/10:

Proposed ASAE 3402 *Assurance Reports on Controls at a Service Organisation &*

Withdrawal of AGS 1042 Audit Considerations Relating to an Entity Using a Service Organization

Date: 28 January 2010

Action Required

For Information Purposes Only

Agenda Item Objectives

To approve ASAE 3402 *Assurance Reports on Controls at a Service Organisation* as ED 01/10 for a 45 day exposure period (1 March 2010 to 15 April 2010).

To approve withdrawal of AGS 1042 from the date ASAE 3402 becomes operative (proposed 1 July 2010).

Background

The IAASB issued Standard on Assurance Engagements ISAE 3402 *Assurance Reports on Controls at a Service Organization* in December 2009 to be effective for service auditor's assurance reports covering periods ending on or after 15 June 2011. ISAE 3402 is the complementary standard to ISA 402 *Audit Considerations Relating to an Entity Using a Service Organization* in that it provides requirements and application material for the preparation of reports on controls at the service organisation by the service auditor which are capable of providing appropriate evidence under ISA 402.

ISAE 3402 was written as part of the IAASB clarity project as an entirely new standard to replace and expand on the requirements and application material for service auditors contained within the former ISA 402. The revised ISA 402 in clarity format is now limited to requirements and application material for the user auditor requiring evidence with respect to controls at a service organisation.

The AUASB issued ASA 402 *Audit Considerations Relating to an Entity Using a Service Organisation*, which conforms to ISA 402, in October 2009 as part of the clarity project. ASA 402 is operative for financial reporting periods commencing on or after 1 January 2010.

The key features of ISAE 3402 are that the standard:

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- Applies only to reasonable assurance engagements.
- Applies only to assertion based engagements (attest).
- Deals with engagements to report on the description and design (type 1 report) or the description, design and operating effectiveness (type 2 report) of controls at the service organisation.
- Provides for reports on controls at a service organisation, which provides services to user entities, which are likely to be relevant to user entities' internal control as it relates to financial reporting.

Existing Guidance

AGS 1042 *Reporting on Control Procedures at Outsourcing Entities* issued by the former AuASB was updated in July 2002 and remains operative to date. AGS 1042 provides guidance principally to service auditors in preparing reports on controls which may be used by user auditors under ASA 402 and its predecessor AUS 404. Whilst these standards provide no example reports and little guidance to service auditors in the conduct of engagements to report on controls at the service organisation, AGS 1042 does provide those example reports and guidance. AGS 1042 has no equivalent international pronouncement. For periods commencing on or after 1 July 2008 AGS 1042 is not applicable for reporting on control procedures at outsourcing entities (service organisations) which provide investment management services, since GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services* was operative from those periods. GS 007 provides guidance for both user and service auditors as well as example reports. In addition to guidance on controls reporting, GS 007 provides guidance on special purpose auditor's reports prepared by the service auditor.

Matters to Consider

1. The AUASB is requested to consider the proposed changes to the underlying standard, ISAE 3402—shown as marked-up items in the draft ASAE 3402 (see agenda item 6(a).3).
2. The AUASB is also requested to consider and conclude on the issues listed in Attachment 1 to this Board Meeting Summary Paper (see agenda item 6(a).1).
3. ISA 402 includes a guidance paragraph (A16) that refers to the complementary standard ISAE 3402. This paragraph was replaced with an "Aus" paragraph because ASAE 3402 had not been issued by the AUASB at the time ASA 402 was issued (Oct 09). When ASAE 3402 is issued, a conforming amendment should be made to ASA 402 by replacing paragraph Aus A16.1 with the ISA 402 paragraph, thereby making reference to the complementary standard ASAE 3402.
4. Guidance Statement GS 007 will require some revision to anchor it to ASAE 3402 and the new ASA 402. A separate Board Meeting Summary Paper is presented on this matter (see Agenda Item 6(b)). No changes are required to ASAE 3402 as a consequence of the material contained in GS 007.

Key Drafting Changes

ED 01/10 is an exposure draft of proposed standard ASAE 3402 and has been drafted using the underlying standard ISAE 3402 (clarity format). The following Australian paragraphs have been inserted:

- Aus 0.1 An application paragraph—as included in all AUASB Standards.
- Aus 0.2 Operative date paragraph—as used in all AUASB Standards in place of the effective date paragraph in IAASB Standards, therefore this paragraph replaces paragraph 7.

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- Aus 6.1 This paragraph replaces the ISAE paragraph 6 so as to reflect the wording in ASAE 3000. In addition, AUASB Standards do not make reference to the IFAC Code of Ethics.
- Aus 9.1 Elevation of footnote—AUASB clarity drafting rule.
- Aus 29.1 Elevation of footnote— AUASB clarity drafting rule.
- Aus A5.1 This paragraph replaces the ISAE paragraph A5—AUASB Standards do not make reference to the IFAC Code of Ethics.

The only terminology change (see paragraph 1) is that the term “professional accountant in public practice” (used in ISRE 3402) has been replaced with “assurance practitioner” as the Standards on Assurance Engagements in Australia apply to all those involved in the provision of assurance services and are not limited to professional accountants. (See also definitions contained within ASQC 1 and ASA 220).

Staff Recommendations

- Proposed Standard on Assurance Engagements ASAE 3402 for approval for issuance as an exposure draft.
- Withdrawal of AGS 1042 with effect from the date ASAE 3402 becomes operative.

Material Presented

- Agenda Item 6.2(a) Board Meeting Summary Paper
- Agenda Item 6.2(a).1 Attachment to BMSP
- Agenda Item 6.2(a).2 ED 01/10 *Assurance Reports on Controls at a Service Organisation* [Clean Version. Electronic Copy only]
- Agenda Item 6.2(a).3 ED 01/10 *Assurance Reports on Controls at a Service Organisation* [Marked Up Version]
- Agenda Item 6.2(a).4 AGS 1042 *Reporting on Control Procedures at Outsourcing Entities* (July 2002) [Electronic Copy only]
- Agenda Item 6.2(a).5 ISAE 3402 *Assurance Reports on Controls at a Service Organization* [Electronic Copy only]

Action Required

No.	Action Item	Deliverable	Responsibility	Due Date	Status
1	Approval of ED 01/10 for 45 day exposure.	Approval	Board	22 February 2010	Pending
2	Approve withdrawal of AGS 1042	Approval	Board	22 February 2010	Pending

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