



Attachment to Board Meeting Summary Paper

Subject: Implications of ASAE 3402 on GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*

Prepared by: AUASB Technical Group

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## ATTACHMENT 1

This attachment discusses the impact of proposed ASAE 3402, the new clarity suite of standards and the feedback received from stakeholders in the AUASB's consultation on GS 007.

### 1. Impact of proposed ASAE 3402 on GS 007

Anchors in GS 007 to ASAE 3000 in most instances will require replacing with anchors to ASAE 3402 as the more relevant standard. As ASAE 3402 will be an entirely new standard, GS 007 contains some duplication with the proposed ASAE 3402, in the introductory section (paragraphs 1-14) and *B: Guidance for the Service Auditor* (paragraphs 63 on) to the extent that that part relates to controls reports. Consequently these sections can be cut down and some of the paragraphs which will need to be deleted are marked up in Agenda Item 6(b).2. Alignment with the methodologies in ASAE 3402 will also be necessary to some extent.

The example controls report and auditor's report in GS 007 Appendix 2 will require aligning to ASAE 3402 Appendix 1 & 2.

### 2. Impact of ASA 402 and clarity suite of standards on GS 007

The revised and redrafted ASA 402 is a far more comprehensive standard than the previous ASA 402, consequently GS 007 duplicates some of the requirements and application material contained in the new ASA 402. The guidance in Part A of GS 007 *Guidance for the User Auditor* relates to the requirements in ASA 402 to the extent that part relates to controls reports, therefore this part can be substantially cut down. Some of the paragraphs which will need to be deleted are marked up in Agenda Item 6(b).2. These paragraphs may be replaced by an anchor to ASA 402. In addition the approach and methodology taken in GS 007 will need some alignment to the new ASA 402 where it is not appropriate to remove the guidance and simply anchor to ASA 402.

ASA 3402 and ASA 402 provide requirements relating to controls reporting only, whereas GS 007 also addresses special purpose auditor's reports for which requirements are contained in other ASAs. Consequently, there are anchors throughout GS 007 to other standards, including ASA 800, all of which have now been revised and replaced with the clarity suite of standards. Each of these anchors, the terminology used and the approach taken will need aligning to the clarity suite of standards. Generally this will involve amendments rather than deletion of material in GS 007.

The standards anchored in GS 007 are as follows:

<b>Standard anchored in GS 007</b>	<b>Equivalent New Clarity Standard</b>
ASA 200 <i>Objective and General Principles Governing an Audit of a Financial Report</i>	ASA 200 <i>Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards</i>
ASA 210 <i>Terms of Audit Engagements</i>	ASA 210 <i>Agreeing the Terms of Audit Engagements</i>
ASA 240 <i>The Auditor’s Responsibility to Consider Fraud in an Audit of a Financial Report</i>	ASA 240 <i>The Auditor’s Responsibilities Relating to Fraud in an Audit of a Financial Report</i>
ASA 260 <i>Communication of Audit Matters with Those Charged with Governance</i>	ASA 260 <i>Communication with Those Charged with Governance</i>
ASA 315 <i>Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement</i>	ASA 315 <i>Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment</i>
ASA 320 <i>Materiality and Audit Adjustments</i>	ASA 320 <i>Materiality in Planning and Performing an Audit</i>
ASA 330 <i>The Auditor’s Procedures in Response to Assessed Risks</i>	ASA 330 <i>The Auditor’s Responses to Assessed Risks</i>
ASA 500 <i>Audit Evidence</i>	ASA 500 <i>Audit Evidence</i>
ASA 800 <i>The Auditor’s Report on Special Purpose Audit Engagements</i>	ASA 800 <i>Special Considerations—Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks</i>
	ASA 805 <i>Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement</i>

The example engagement letters in GS 007 Appendix 1 will require aligning to ASA 210 Appendix 1. The example special purpose auditor’s report in GS 007 Appendix 3 will require aligning to the Appendices in ASA 805 and ASA 800 as appropriate.

### **3. Impact of feedback from stakeholders on GS 007**

During 2009, via Independence, our website and some direct emails to stakeholders, the AUASB invited auditors and users of GS 007 reports to provide feedback on their experiences in implementing GS 007. The responses were received from one service organisation, one auditor and one Auditor General’s Office. In addition three specific queries had been received since GS 007 was issued on the meaning of certain control objectives. The feedback received whilst limited was largely positive, including the following comments:

*“the GS 007 report has enabled us to provide a much greater level of comfort to clients around our control environment”*

*“feedback from our clients on the new report and the comfort it provides has been overwhelmingly positive”*

*“both users and issuers, see the enhanced guidance under GS007 as a positive step in demonstrating a strong control environment at the outsourced service organisation”*

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Nevertheless feedback did note that there were costs involved in implementation:

*“Larger entities... have found this challenging and smaller entities are really struggling with the amount of time/effort required and cost involved.”*

*“The effort required to ready...[ourselves] for GS007 was significant”*

Potential improvements identified in the feedback included relatively straightforward amendments to a number of control objectives and clarification of certain terms used in the control objectives. Additional guidance was requested on several matters including: the extent of procedures required for special purpose auditor’s reports; the exclusive method of dealing with sub-service organisation controls and what constitutes outsourced activities.

Overall the suggested improvements are not too extensive.