



AUASB Board Meeting Summary Paper

AGENDA ITEM NO. **5**

Meeting Date: 25 July 2011

Subject: Consider updated revision of Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*.

Date: 11 July 2011

Action Required

For Information Purposes Only

Agenda Item Objectives

To consider a revised draft of GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services* and agree approach to further revisions.

Background

GS 007 was issued in March 2008. Since that time, the requirements to which GS 007 is anchored have been amended. With respect to reporting on controls at a service organisation, the anchoring standard ASA 402 has been reissued under the clarity suite and the requirements for user auditors have been moved to a new standard on assurance engagements ASAE 3402. With respect to reporting on financial information, the suite of auditing standards to which GS 007 was anchored has been reissued as the clarity suite of standards. In addition, the AUASB sought stakeholder comments on implementation of GS 007 in 2009 and 2010. A Project Advisory Group (PAG) was formed, and first met in March 2011, to advise on the revision of GS 007.

Matters to Consider

Revisions to GS 007, as reflected in Agenda Item 5.1, were considered by the PAG at a meeting on 11 July 2011. The draft revised GS 007 shows all changes from the existing GS 007 as mark-ups.

This document contains preliminary views and/or AUASB Technical Group 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.

The PAG recommended that further revisions to GS 007 be made as follows:

- Duplication with ASAE 3402 and ASA 402 be removed, except where it relates to the service organisation's responsibilities. This would reverse the earlier decision of the PAG and Board to retain the duplication in order for GS 007 to be a "one-stop-shop". This is recommended due to the sheer length of the revised draft and because elimination of the duplication would only necessitate reference by users to two standards (ASA 402 and ASAE 3402). The revised draft has been highlighted to indicate paragraphs which will be truncated or replaced with a reference to ASA 402 or ASAE 3402.¹
- Terminology revert to:
 - "Statement" rather than financial statement or report.
 - "Client" instead of "customer".
- IDPS guidance to be amended to acknowledge that IDPS are typically used by retail investors which will not require a GS 007 report as they will not be subject to audit.
- Control Objectives:
 - New services and control objectives were considered for Hedge Funds or Private Equity, which have been added as separate service areas in the UK, are not required but are not as widely used in Australia.
 - To be reviewed by service area experts.
 - Related to distributions, unit pricing and performance indicators, to be removed/amended.
- Operative Date to be delayed to periods commencing 1 January 2012, instead of 1 Oct 2011, to allow sufficient time for service organisations to ensure adequate controls are in place to address the new control objectives. As most service organisations are reporting half yearly and have a year-end of 30 June and are required to meet the requirements of ASAE 3402 and ASA 402 already, this will not in practice delay the revised reporting for most service organisations.

Some additional amendments are also anticipated to address a number of outstanding comments received from stakeholders.

As a means of ensuring stakeholders are aware of the anticipated release of a revised GS 007 and when it will be applicable so that they are adequately prepared, the PAG has recommended that the *Explanation of the Applicability of AUASB Pronouncements where a User Entity uses a Service Organisation*, currently available on the AUASB website, be updated and circulated by email alert.

¹ Paragraphs highlighted for truncation or replacement with a reference to the requirements or guidance in the standards are 18, 19, 20, 22, 23, 25, 28, 29, 34, 36, 41, 71, 95, 96, 98, 101, 103, 104, 109, 110 to 127, 129, 130, 137 and 139.

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AUASB Technical Group Recommendations

The Technical Group support the PAG's recommendations and request the Board's approval of this approach to the remaining amendments.

We propose to circulate an amended draft out-of-session for the Board's consideration following the Board meeting and the final for approval either out-of-session in August or at the September Board meeting.

Material Presented

- Agenda Item 5 Board Meeting Summary Paper
- Agenda Item 5.1 Draft Revised GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services* (Marked Up Version [electronic only])
- Agenda Item 5.2 Draft Revised GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services* (Clean Version [electronic only])
- Agenda Item 5.3 GS 007 Project Advisory Group Meeting Minutes dated 11 July 2011

Action Required

| No. | Action Item | Deliverable | Responsibility | Due Date | Status |
|------------|-----------------------------|--|-----------------------|-----------------|---------------|
| 1. | Agree approach to revision. | Approve nature of further revisions to GS 007. | Board | 25 July 2011 | Pending |

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