

21 May 2010

The Chairman  
Auditing and Assurance Standards Board  
PO Box 204  
Collins St West  
Melbourne, VIC 8007

Dear Chairman,

**ED 01/10 PROPOSED STANDARD ON ASSURANCE ENGAGEMENTS ASAE 3402  
ASSURANCE REPORTS ON CONTROLS AT A SERVICE ORGANISATION**

Attached is the Australasian Council of Auditors-General (ACAG) response to the Exposure Draft referred to above.

The views expressed in this submission represent those of all Australian members of ACAG.

The opportunity to comment is appreciated and I trust you will find the attached comments useful.

Yours sincerely



Simon O'Neill  
**Chairman**  
**ACAG Financial Reporting and Auditing Committee**

**ED 01/10 PROPOSED STANDARD ON ASSURANCE ENGAGEMENTS ASAE 3402  
ASSURANCE REPORTS ON CONTROLS AT A SERVICE ORGANISATION**

ACAG has considered the proposed standard and provide the following responses to the specific questions, and some additional comments.

- 1. What, if any, are the significant costs to/benefits for assurance practitioners and the business community arising from compliance with the requirements of this proposed Standard on Assurance Engagements? If there are significant costs, do these outweigh the benefits to the users of assurance services?**

We do not believe there are any significant costs for assurance practitioners and the business community arising from compliance with the requirements of the proposed standard.

The proposed standard is likely to benefit assurance practitioners and the business community by providing guidance that is more specific, where previously only general guidance existed.

- 2. Are there any other significant public interest matters that constituents wish to raise?**

We do not have any significant public interest matters to comment on.

- 3. Other Comments:**

- ***Interaction between proposed ASAE 3402 and ASAE 3000 ‘Assurance Engagements other than Audits or Reviews of Historical Financial Information’***

ACAG recommends that the AUASB review ASAE 3000 in conjunction with creating the proposed ASAE 3402 to ensure the relationship between proposed ASAE 3402 and other professional pronouncements is consistent with that described in para 5-Aus6.1 of ASAE 3402. In doing so the AUASB should consider how proposed ASAE 3402 fits into the overall framework for assurance engagements. For example:

- we observed that ASAE 3402 does not always link back to ASAE 3000 clearly and it appears that ASAE 3402 reiterates some requirements already in ASAE 3000. For example, paras 43-44 of ASAE 3402, relating to subsequent events, does not refer back to para 68-69 of ASAE 3000 and effectively duplicates these requirements
- we noted that ASAE 3402 covers areas, which ASAE 3000 does not address. For example, proposed ASAE 3402 includes requirements and guidance for using the work of internal audit (para 30-37) and for the use of sampling for gathering evidence (para 27) but ASAE 3000 does not. Because these requirements are applicable to all forms of assurance engagements, the requirements would most appropriately be included in ASAE 3000. ASAE 3402 should focus on requirements and guidance specific to an assurance engagement on controls of a service organisation.

- ***Interaction of Proposed ASAE 3402 with Auditing Standards and Guidance***

ACAG recommends the AUASB review GS 007 ‘Audit Implications of the Use of Service Organisation for Investment Management Services’ to ensure consistency with the proposed ASAE 3402.

Specifically, there is guidance in GS 007 that is not considered by the proposed ASAE 3402. For example, GS 007 includes guidance on audit procedures to assess the accuracy of the service entity's description of their controls (para 93), to determine whether the controls have been implemented (para 98) and whether controls are operating effectively (para 101). The AUASB should consider whether any of the guidance in GS 007 could be included as Aus paragraphs in the proposed ASAE 3402.

Additionally, some of the definitions in para 9 of ASAE 3402 are inconsistent with definitions in ASA 402 'Audit Considerations Relating to an entity using a Service Organisation'. For example, the definition of a type 1 report in para 9(j) of proposed ASAE 3402 is different to the definition in para 8(b) of ASA 402. The AUASB should consider the consistency of requirements and guidance in ASAE 3402 with those in ASA 402. This is particularly important because proposed ASAE 3402 is designed to complement ASA 402 (para 1 of proposed ASAE 3402).

▪ ***Obtaining an Understanding of the Service Organisation's Internal Control***

ACAG recommends the proposed standard be amended to include a specific requirement for the service auditor to gain a general understanding of all the elements of the service entity's internal control. Internal control is made up of five components – the control environment, risk assessment process, information system, control activities relevant to the assurance engagement and the monitoring of controls (refer paras 14-24 ASA 315 'Identifying the Risks of Material Misstatement through Understanding the Entity and Its Environment').

The proposed standard only requires the service auditor to gain an understanding of the control activities component of internal control (para 20).

While assurance engagements performed under the proposed standard will provide assurance on the control activities only, it is necessary for the service auditor to gain an understanding of the other four aspects of internal control as well. For example, such an understanding would allow the service auditor to:

- determine whether an information systems expert should be engaged
- identify weaknesses, for example, in the control environment that impact the risk that the service organisation's description of its system will be materially misstated or the service entity's controls will be ineffective.

▪ ***Assessing the suitability of the criteria:***

ACAG recommend that the AUASB clarify whether complying with the minimum requirements set out in para 16-18 of proposed ASAE 3402 ensures that the criteria used to evaluate the service organisation's description of its system, design of controls and operating effectiveness of controls meets the required characteristics set out in para 36 of ASAE 3000.

The service entity's description of its system (para 16(a)) should include a description of how the service entity processes non-recurring and unusual transactions or adjustments, including controls surrounding journal entries (refer to para 3(f) of ASA 402). These processes and controls over them will be of interest to the user entity and the user auditor.

▪ **Other:**

- Para 2, footnote 4 – the reference to 52(k) should be a reference to para 53(k).
- Para 11, footnote \* and para Aus6.1, footnote \* - all footnotes should be numerical.
- Para 16(a) - should include a reference to para A15 because A15 relates directly to 16(a) only.
- Para 50, footnote 12 - should refer to para 45 of ASQC 1 instead of, or as well as, ASQC 1 para A54-55.
- Para A4 - should refer to para 13(b)(i)-(vi).
- The heading 'Identification of Risks (Ref: Para 13(b)(iv))' before para A10 should refer to para 13(b)(v).
- Para Aus A12.1 - no paragraph in the requirements section refers to Aus A12.1. The AUASB should consider including an appropriate reference so that the guidance is not overlooked.
- Para A14, footnote 13 - should reference to ASAE 3000 para 33-39.
- Other ASAE standards use quotation marks for defined terms (e.g. para 11 of ASAE 3100 'Compliance Engagements') and the AUASB may consider making ASAE 3402 consistent with these.