



# Board Meeting Summary Paper

**Subject:** Service Organisations – Update on revision of GS 007 including consideration of comments received from constituents

**Date:** 23 February 2011

<b>AUASB AGENDA ITEM NO. 10</b>
<b>Meeting Date: 28 February 2011</b>

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## Action Required

**X For Information Purposes Only**

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### Agenda Item Objectives

To obtain an update on the project to revise GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*, including consideration of comments received from constituents following the AUASB invitation to comment.

### Background

Guidance Statement GS 007 was issued in March 2008 with very detailed guidance for both service and user auditors when the user entity uses a service organisation for investment management services. The guidance included control objectives which user auditors can expect to be addressed in service auditors controls reports for each of six identified service areas.

Following the issue of the new suite of clarity auditing standards, particularly ASA 402 and ASAE 3402, and the receipt of recommendations for some amendments to the control objectives contained in GS 007, the AUASB initiated a project to revise GS 007 in 2010. In December 2010 the AUASB invited stakeholders to comment on the implementation of GS 007 and posed four specific questions in relation to that implementation, with a closing date for comments of 4 February 2011.

### Matters to Consider

The AUASB received nine comment letters from stakeholders which provided both overall comments and responses to the specific questions raised by the AUASB.

Overall submissions were very positive with respect to the benefits of implementing GS 007. Nevertheless some comments that were received indicated that often service auditors reports under GS 007 could not be used as audit evidence by user auditors and auditors continued to gather their own evidence separately.

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An indication of the responses to the questions posed are noted below.

1. *The extent to which in their experience investment management service organisations are obtaining service auditor's reports under GS 007 and the extent to which user entities or user auditors are requesting those reports.*

Responses indicated that more service organisations were seeking service auditor reports since GS 007 was issued and it has become the industry standard for many of the service areas, but the cost burden discouraged reports to be obtained in certain service areas, such as Fund and Property Management. It was noted that the reports are often received too late to be able to be used for the user entity audit. In the case of Investor Directed Portfolio Services, reports should be provided under ASIC Class Order 02/294 rather than GS007, which should be acknowledged in GS 007 as the overlap with GS 007 is causing confusion.

2. *Are service auditors' reports with respect to investment management service organisations providing the audit evidence user auditors require for the audit of user entities' financial reports?*

Mostly the comment letters indicated that the evidence needed was contained in the reports and that GS 007 had improved the user auditor's ability to assess the outsourced functions, whilst others indicated that they did not rely to any great extent on GS 007 reports. Stakeholder comments included that there was improved transparency over the service organisation control environment and improvement in the overall scope and consistency of controls reporting.

3. *Are the control objectives comprehensive, relevant and clear for each service area? If not, please provide details of any suggested amendments or additional objectives.*

Stakeholders were generally very supportive of the provision of minimum control objectives for each service area which some reported has improved the quality and consistency of audit evidence available. Additional guidance on IT issues was suggested. Controls for monitoring sub-service providers was also identified as an area for additional objectives and objectives were suggested to address conflicts of interest between different service offerings by a service organisation.

4. *Do the six services addressed by GS 007 cover the investment management services which may be part of the user entity's information system, including business processes, relevant to financial reporting?*

Stakeholders requested that unit pricing control objectives be added as this was often required by user entities. In addition the inclusion of prime brokerage and clearing agencies services within investment management services was recommended.

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The comment letters contained many detailed comments for specific areas where additional guidance would be beneficial in revisions to GS 007. Including matters such as how and when to qualify assurance reports, how to interpret controls reports produced under other jurisdictions and how to use the reports where the exclusive method has been used with respect to sub-service organisations.

The Project Advisory Group is planned to be reformed to advise the Technical Group in the revision of GS 007 to address the matters raised by stakeholders and to anchor to the new suite of standards. A revised draft will be presented to the April Board meeting along with a detailed analysis of how the matters raised in each comment letter are addressed in the revisions proposed.

## **Material Presented**

Agenda Item 10	Board Meeting Summary Paper
Agenda Item 10.1	Comment letter from PricewaterhouseCoopers (electronic only)
Agenda Item 10.2	Comment letter from The Audit Office of New South Wales (electronic only)
Agenda Item 10.3	Comment letter from Deloitte (electronic only)
Agenda Item 10.4	Comment letter from Australian Custodian Services Association (electronic only)
Agenda Item 10.5	Comment letter from Self-Managed Super Fund Professional's Association of Aust. (electronic only)
Agenda Item 10.6	Comment letter from Ernst & Young (electronic only)
Agenda Item 10.7	Comment letter from Grant Thornton (electronic only)
Agenda Item 10.8	Comment letter from Pitcher Partners (electronic only)
Agenda Item 10.9	Comment letter from Joint Accounting Bodies (electronic only)

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