

Agenda Item 5.1
AUASB Meeting 25 July 2011
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GS 007

(August 2011)

Guidance Statement GS 007
*Audit Implications of the use
of Service Organisations for
Investment Management
Services*

Issued by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

Guidance Statement GS 007 Audit Implications of the use of Service Organisations for Investment Management Services

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AUTHORITY STATEMENT

The Auditing and Assurance Standards Board (AUASB) formulates Guidance Statement GS 007 *Audit Implications of the use of Service Organisations for Investment Management Services*, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purposes of providing guidance on auditing and assurance matters.

This Guidance Statement provides guidance to assist the auditor to fulfil the objectives of the audit or assurance engagement. It includes explanatory material on specific matters for the purposes of understanding and complying with AUASB Standards. The auditor exercises professional judgement when using this Guidance Statement.

The Guidance Statement does not prescribe or create new requirements.

Dated: <TypeHere>

M H Kelsall
Chairman - AUASB

GUIDANCE STATEMENT GS 007

Audit Implications of the use of Service Organisations for Investment Management Services

Application

1. This Guidance Statement has been formulated by the Auditing and Assurance Standards Board (AUASB) to provide guidance to auditors on:
 - (a) auditors (user auditors) of a financial report of an entity~~ies (user entity)~~ which uses a service organisations to provide investment management services; and
 - (b) auditors (service auditors) of those service organisations, who provide ~~audit and assurance~~ reports on controls or financial information which may be used as audit evidence in the audit of the user entity's financial report.

Issuance Date

2. This Guidance statement is issued on xx xxxx 2011 by the AUASB and replaces 007 *Audit Implications of the use of Service Organisations for Investment Management Services*, issued in March 2008. It is operative for reporting periods commencing on or after 1 July-October 2008~~2011~~.

Comment [CG1]: PAG recommending
1 Jan 2012

Introduction

3. This Guidance Statement ~~has been formulated by the AUASB to provide guidance~~applies to:
 - (a) The user auditor engaged to audit the financial report of an entity (user entity) that uses a third party service organisation to provide investment management services, where:

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- (i) the services provided ~~form~~ are part of the user entity's information system, including related business processes, relevant to financial reporting¹;
- (ii) audit evidence required by the user auditor, regarding internal controls and/or assertions, is located at the service organisation; and
- (iii) reports on controls at the service organisation and/or a service auditor's report on specified assertions or a special purpose financial report~~statement~~ of the user entity's balances or transactions relating to the services provided by the service organisation, are available.

Comment [CHG2]: ASA 800 has different meaning of special purpose financial report – may not apply here.

Part A of this Guidance Statement (paragraphs ~~15-659~~ 2) provides guidance to the user auditor on the application of Auditing Standard ASA 402, ~~Audit Considerations Relating to Entities Using Service Organisations when using a service auditor's report on controls and/or Australian Auditing Standards, when using a service auditor's report on financial information~~, in the above circumstances.

Comment [CG3]: Check

- (b) The service auditor engaged to report on controls and/or ~~special purpose financial reports~~ financial information relating to components of user entities for which investment management services are provided by the service organisation.

Part B of this Guidance Statement (paragraphs ~~603-144~~) provides guidance to the service auditor on the application of Standard on Assurance Engagements ASAE ~~3000 Assurance Engagements Other Than Audits or Reviews of Historical Financial Information~~ 3402 -when reporting on

¹ See ASA 402 *Audit Considerations Relating to an Entity Using a Service Organisation*, paragraph 3 which specifies when the service organisation's services are part of the user entity's information system, including related business processes, relevant to financial reporting.

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controls and Auditing Standard ASA 805² *The Auditor's Report on Special Purpose Audit Engagements*—when reporting on special purpose financial reports financial information.

Types of Reports

4. This Guidance Statement provides guidance for the preparation and use as audit evidence of the following reports:

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- (a) Reports on the description and design of controls at a service organisation (Type 1 report)³ or description, design and operating effectiveness of controls at a service organisation (Type 2 report),⁴ relating to the service organisation's system over the investment management services provided to user entities Controls Reports, prepared in accordance with ASA 402/ASAE 3402, as an attest report, covering either: design and implementation of controls ("Type A Controls Report"), which a user auditor may use in applying Auditing Standard ASA 315 *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*; or, design, implementation and operating effectiveness of controls ("Type B Controls Report"), which a user auditor may use in applying Auditing Standard ASA 330 *The Auditor's Procedures in Response to Assessed Risks*, over the investment management services provided by the service organisation. (Type A and B Controls Reports (Controls Reports)) comprise:
 - (b) A service organisation's report on controls ("Service Organisation's Controls Report") containing management's, or those charged with governance's, description of the service organisation's control objectives

² See ASA 805 *Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*.

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³ See ASAE 3420, paragraph 9(i).

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⁴ See ASAE 3420, paragraph 9(k).

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and controls to meet each objective, including the control objectives listed in Appendix 2 Section B of this Guidance Statement for the relevant services. Accompanied by a written assertion by management, or those charged with governance, of the service organisation that the controls and that the controls that relate to the control objectives are described accurately, are suitably designed ~~as at the specified date, for a Type 1 Report, or throughout the period, for a Type 2 Report~~In addition for a Type 2 Report, an assertion that the to provide reasonable assurance of meeting the specified objectives, have been implemented and, if applicable, have operated controls operated effectively throughout the period.

(e)(a) A service auditor's assurance report ("Service Auditor's Controls Report") containing an opinion about the assertions of management, or those charged with goFor reports on operating effectiveness, a description of the service auditor's tests of the controls and the results thereof are attached to the auditor's report.

(d)(b) ~~Special Purpose~~ Service a Auditor's rReports on financial information, prepared in accordance with ASA 800805,⁵ comprising either:

- (i) ~~a~~A service auditor's report on specified assertions regarding balances or transactions of the user entity reported in a ~~special purpose~~ financial reportstatement by the service organisation, which provides investment management services, ("Service Auditor's Report on Specified Assertions"); or
- (ii) a service auditor's report on a ~~special purpose~~ financial report statement of the user entity's balances or transactions (a "Statement") reported by the service organisation which provides

Comment [CG4]: Split this paragraph as was getting too long.

Comment [CHG5]: Deleted this term as implies a special purpose framework which may not be applicable – refer to ASA 800 & 805.

⁵ ASA 800 is also applicable if the financial information is a financial report or complete set of financial statements prepared in accordance with a special purpose framework.

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investment management services (“Service Auditor’s Report on a Statement”).

5. Type 1 and 2 reports on controls comprise:⁶

(a) A service organisation’s description of its investment management services system, including identification of: the services covered; the date or period to which the description relates; control objectives, including the control objectives listed in Appendix 2 Example 2 of this Guidance Statement for the relevant investment management services provided; and related controls.⁷

(b) A written assertion by the service organisation that, in all material respects, and based on suitable criteria: the description fairly presents the service organisation’s system as designed and implemented and that the controls related to the control objectives stated in the service organisation’s description of its system were suitably designed as at the specified date, for a Type 1 Report, or throughout the period, for a Type 2 Report. In addition, for a Type 2 Report, an assertion that the controls operated effectively throughout the specified period.

(c) A service auditor’s assurance report that conveys reasonable assurance about the service organisation’s assertions, including for Type 2 Reports, a description of the tests of controls and the results thereof.

6. The use of a Type 1 report by a user auditor is limited to understanding the entity in accordance with Auditing Standard ASA 315⁸, whereas a Type 2 report may also be used by a user

Comment [CG6]: Moved from para. 4.

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Comment [CHG7]: Duplicates ASAE 3402 para9(j) & (k) definitions.

⁶ See ASAE 3402, paragraph 9(j) & 9(k).

⁷ See ASAE 3402, paragraph 9(n).

⁸ See ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*.

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auditor in responding to assessed risks in accordance with Auditing Standard ASA 330.⁹

Comment [CG8]: Ensure that this is expanded on later in GS.

~~5-7.~~ The following table, entitled *Table 1: Service Auditor's Reports*, outlines the context in which each of these reports is prepared and used as audit evidence. Table 1 lists the reports included in this Guidance Statement, the subject matter covered by each report, the circumstances for which each report may be useful to user auditors, standards relevant to the preparation and use of each report and ~~references to appendices containing examples of each report and related engagement letters.~~

⁹ See ASA 330 *The Auditor's Responses to Assessed Risks*.

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Table 1: Service Auditor’s Reports

Title of Report	Subject Matter Covered by Report	Circumstances for Which Report is Used by User Auditors	Relevant Standards	Appendix Reference for Examples
<u>Controls-Reports on Controls</u>				
1. Type A <u>Controls</u> Report	<u>Description and design and implementation</u> of controls at the service organisation.	Planning: Obtaining an understanding of the user entity and its environment, including controls over services provided by the service organisation, in order to assess the risk of material misstatement and design further audit procedures. This report cannot be relied on to reduce substantive procedures.	User Auditor: ASA 402 & ASA 315 Service Auditor: ASAE <u>30003402</u>	Engagement letter: Appendix 1 <u>Example 1Section A</u> Service Auditor’s <u>Controls-Type 1</u> Report: No example provided as <u>use is limited to planningthis report is not likely to meet the needs of all user auditors.</u>

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Title of Report	Subject Matter Covered by Report	Circumstances for Which Report is Used by User Auditors	Relevant Standards	Appendix Reference for Examples
2. Type B Controls Report	Description, design, implementation & operating effectiveness of controls at the service organisation.	<p>Planning: Obtaining an understanding of the user entity and its environment: as for Type A Controls Reports.</p> <p>Responding to the assessed risks of material misstatement: <u>require when</u> evidence is <u>required</u> of the operating effectiveness of controls, over the services provided, at the service organisation.</p>	<p>User Auditor: ASA 402 & ASA 330</p> <p>Service Auditor: ASAE 30003402</p>	<p>Engagement letter: Appendix 1 <u>Section A Example 1</u></p> <p>Service Organisation's <u>Controls Report Description of its System and Assertion</u>: Appendix 2; <u>Minimum Control Objectives: Appendix 3; Sections A & B</u></p> <p>Service Auditor's <u>Controls-Type 2 Report</u>: Appendix 2 <u>Section C4 and</u></p>

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Comment [CHG9]: Change to ASAE 3402 definitions.

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Title of Report	Subject Matter Covered by Report	Circumstances for Which Report is Used by User Auditors	Relevant Standards	Appendix Reference for Examples
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Appendix 5				
Special Purpose Service Auditor's Reports on financial information				
3. Service Auditor's Report on Specified Assertions	Specified assertions regarding balances or transactions of the user entity reported in a Statement.	Require evidence from procedures conducted at the service organisation regarding certain assertions with respect to balances or transactions of the user entity, reported in a Statement.	Service Auditor: ASA 800 <u>805</u>	Engagement letter: Appendix 1 Section B <u>Example 2</u> Service Auditor's Report: Appendix 3 <u>Section A6 Example 1</u>
4. Service Auditor's Report on a Statement	Balances or transactions of the user entity reported in a Statement.	Require evidence from procedures conducted at the service organisation regarding the balances or transactions of the user entity, reported in a Statement.	Service Auditor: ASA 800 <u>5</u>	Engagement letter: Appendix 1 Section C <u>Example 3</u> Service Auditor's Report: Appendix 3 <u>Section B Appendix 6</u>

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Title of Report	Subject Matter Covered by Report	Circumstances for Which Report is Used by User Auditors	Relevant Standards	Appendix Reference for Examples
				Example 2

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references to appendices containing examples of each report and related engagement letters.

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6.8. The guidance in this Guidance Statement is based on engagements to provide an opinion based on reasonable assurance, with respect to controls or financial information, however, it may be adapted, as necessary in the circumstances. ~~It does not apply~~ to an engagement to provide a review conclusion on controls based on limited assurance, however, it may be adapted, as necessary in the circumstances, to an engagement to provide a limited assurance conclusion on specified assertions or a Statement. A review conclusion from the service auditor may be appropriate where the user auditor is engaged to perform a review of the user entity's financial report. The service auditor exercises professional judgement in applying this Guidance Statement to a review and, when reporting on specified assertions or a Statement, complies with the requirements of relevant standards on review engagements.

Comment [CHG10]: ISAE 3402 does not allow for adaption to reviews.

7.9. The user auditor may request the user entity to obtain a service auditor's report on agreed-upon procedures. ~~Such engagements are conducted under Standards on Agreed-Upon Procedures Related Services¹⁰ and no further guidance on agreed-upon procedures engagements is provided in this Guidance Statement.~~ Agreed-upon procedures engagements may be appropriate in certain circumstances to provide evidence that the user auditor ~~deems necessary~~ requires, for example when:

- A ~~Type B-21 Controls R~~ report is provided, however the user auditor requires more evidence with respect to controls over a specified area, such as unit pricing.
- Provision of service auditor reports is not agreed in the service level agreement or contract, but the user auditor nevertheless requires selected controls to be ~~assessed~~ tested at the service organisation.

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1. ¹⁰ See ASRS 4400 Agreed-upon Procedures Engagements to Report Factual Findings.

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- — A Service Auditor’s Report on Specified Assertions is provided as described in this Guidance Statement, however further audit procedures are required by the user auditor in obtaining sufficient appropriate audit evidence with respect to particular assertions. For example, with respect to the assertion of valuation, agreement of valuation input variables to source data may be required by the user auditor.

•
Such engagements are conducted under Standards on Related Services¹¹ and no further guidance on agreed-upon procedures engagements is provided in this Guidance Statement.

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¹¹ See ASRS 4400 Agreed-upon Procedures Engagements to Report Factual Findings.

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Services Relevant to this Guidance Statement

8.10. This Guidance Statement has been developed specifically for circumstances where service organisations provide investment management services to user entities, where those services ~~are and the controls over them, are~~ part of the user entity's information system¹², including business processes, relevant to financial reporting, ~~and as a result are relevant to the audit of a user entity's financial report, including.~~ The Investment Management Services addressed in this guidance statement are:

- Custody.
- Asset Management ~~(including Hedge Fund Management).~~
- Property Management.
- Superannuation Member Administration.
- Investment Administration.
- Registry.
- ~~Private Equity.~~

Each of these services is defined in Appendix 2 ~~Section B4.~~

~~9) The services provided by a service organisation ordinarily are part of the user entity's information system relevant to financial reporting if they affect any of the following:~~

- ~~(a) classes of transactions in the user entity's operations that are significant to the user entity's financial report;~~
- ~~(b) procedures, both automated and manual, by which the user entity's transactions are initiated, authorised, recorded, processed, corrected,~~

¹² The circumstances under which a service organisation's services are part of a user entity's information system, including business processes, relevant to financial reporting, are provided in ASA 402 paragraph 3.

Comment [CG11]: Address hedge funds in definition of asset management in Appendix

Comment [CG12]: PAG members mostly didn't see need for private equity or hedge funds as separate service areas and others thought these areas could be justified but no compelling need.

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transferred to the general ledger and reported in the user entity's financial report;

(e) the related accounting records, whether electronic or manual, supporting information and specific accounts in the user entity's financial report, that are used to initiate, record, process and report the user entity's transactions, this includes the correction of incorrect information and how information is transferred to the general ledger;

(d) how the user entity's information system captures events and conditions, other than transactions, that are significant to the financial report;

(e) the financial reporting process used to prepare the user entity's financial report, including significant accounting estimates and disclosures; and

(f) controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments.

10 This Guidance Statement does not apply to services provided by a service organisation which are limited to processing of a user entity's transactions that are specifically authorised by the user entity, such as the processing of securities transactions by a broker. In addition, this Guidance Statement does not apply to the audit of transactions arising from proprietary financial interests in other entities such as partnerships, corporations and joint ventures, when proprietary interests are accounted for and reported to interest holders.

14. _____

15.11. Although this Guidance Statement has been written in the context of the service organisation providing any of the investment management services specified in paragraph 10⁸, user and service auditors may use this Guidance Statement, as appropriate, where the service organisation provides other services which are part of the user entity's information system relevant to financial reporting.

Comment [C13]: Replaced by footnote referencing ASA 402

Comment [C14]: Retain or delete?

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Comment [CHG15]: Check ref.

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~~412.~~ Operators of investor directed portfolio services (IDPS)¹³ and investor directed portfolio-like services ~~account providers~~ are required by ASIC Class Order 02/294¹⁴ *Investor Directed Portfolio Services* and Class Order 02/296¹⁵ to obtain an auditor's report providing an opinion on the internal controls and other relevant accounting procedures as they relate to the specific annual investor statements, and a review ~~opinion~~ conclusion on the specific annual investor statements, quarterly reports in certain circumstances and information accessible to clients electronically. These class orders provide requirements for the form and content of the report in these circumstances. Reports provided under these class orders may provide sufficient appropriate audit evidence for a user auditor. If additional evidence is required by the user auditor, a service auditor's report on controls or on financial information may be requested. IDPS or IDPS-like services generally include custody and investment administration, consequently, if a type 1 or 2 report is provided – the user auditor can reasonably expect the operator (service organisation) and service auditor of an IDPS to report on the control objectives for the relevant services provided in this guidance statement.

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~~413.~~

~~414.~~ Types of service organisations which provide some or all of these investment management services include:

- Custodians.
- Third Party Administrators.
- Investment Managers.

¹³ "IDPS" means an investor directed portfolio service, consisting of a number of functions including a custody, settlement and reporting system and service. The clients of the service have the sole discretion to decide what assets will be acquired or disposed of. The service is provided in such a way that clients are led to expect, and are likely to receive, benefits in the form of access to investments that the client could not otherwise access directly or cost reductions by using assets contributed by the client or derived directly or indirectly from assets contributed by the client with assets contributed by other clients or derived directly or indirectly from assets contributed by other clients.

¹⁴ See ASIC Class Order 02/294 *Investor Directed Portfolio Services*.

¹⁵ See ASIC Class Order 02/296 *Investor Directed Portfolio-like Services provided through a registered managed investment Scheme*.

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- Registrars.
- Trust Departments of Financial Institutions.
- Prime Brokers.

1315. The responsible parties which typically engage the services of these service organisations on behalf of user entities, include but are not limited to:

- Trustees for Superannuation Funds.
- Responsible Entities for Registered Managed Investment Schemes.
- Trustees for Unregistered Unit Trusts.
- Boards of Insurance Companies.

1416. The responsibilities of the responsible party of a user entity are set out in the relevant laws and regulations governing their role and the particular services they oversee.

Comment [CG16]: See comment letters.

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1517. The use of a service organisation for the provision of investment management services by a user entity does not alter the overall objective of the audit of the user entity's financial report, therefore it remains the responsibility of the user auditor to obtain sufficient appropriate audit evidence to support the auditor's opinion. The requirements of the Auditing Standards relating to obtaining sufficient appropriate evidence on which to form an opinion are the same as would apply if the records and supporting documentation were maintained by the user entity.

Obtaining an Understanding of the User Entity and its Environment

18. In obtaining an understanding of the user entity and its environment under ASA 315, ASA 402 requires the user auditor to obtain an understanding of how the user entity uses the services of the service organisation in the user entity's operations, including:¹⁶

- 16 (a) the nature of the services provided by the service organisation and the significance of those services to the user entity and determine the significance of the service organisation's activities/services to the user entity and the relevance to the audit. In doing so, the user auditor determines:
 - (b) the nature and materiality of the transactions processed or accounts or financial reporting processes affected by the service organisation;
 - (c) the degree of interaction between the activities of the service organisation user entity and those of the service organisation user entity; and

¹⁶ See ASA 402, paragraph 9

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Comment [CHG17]: Review against new ASA 402.

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(a)(d) the nature of the relationship between the user entity and the service organisation, including the relevant contractual terms applying to the services provided for the activities undertaken by the service organisation.

1719. In obtaining this understanding, ASA 402¹⁷ requires the user auditor to evaluate the design and implementation of relevant controls at the user entity that relate to the services provided by the service organisation and determine whether a sufficient understanding has been obtained to provide a basis for the identification and assessment of risks of material misstatement. In doing so the user auditor considers the contract and/or service level agreement between the user entity and service organisation, along with information from other sources, such as user manuals, system overviews and technical manuals.

Using a Type 1 Report

20. In planning the audit of the user entity, the user auditor may be unable to obtain a sufficient understanding of the user entity and its environment in order to identify and assess the risks of material misstatement and to design further audit procedures, from the information available at the user entity regarding the services provided by the service organisation. In this case, ASA 402¹⁸ requires the user auditor to perform one or more of the following procedures:

(a) Obtain a type 1 or type 2 report, if available.

(b) Contact the service organisation, through the user entity, to obtain specific information.

(c) Visit the service organisation and perform procedures that will provide the necessary information about the relevant controls at the service organisation; or

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Comment [CG18]: See ASA 402 para A7

Comment [CG19]: Moved up from after section on assessing risks.

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¹⁷ See ASA 402, paragraph 10-11.

¹⁸ See ASA 402, paragraph 12.

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(d) Use another auditor to perform procedures that will provide the necessary information about the relevant controls at the service organisation.¹⁹

21. In applying ASA 402, it may be more efficient for all parties concerned if the user auditor obtains a report on controls rather than visiting the service organisation. A Type 1 Report is sufficient for this purpose, however, if an appropriate Type 2 Report is already available, this also contains the information required.

22. ASA 402 requires the user auditor to satisfy themselves as to the professional competence and independence of the service auditor and the adequacy of the standards under which the report was issued.²⁰ The service organisation may provide reports on controls to user entities prepared under legislation or auditing standards applicable in another jurisdiction, to meet its statutory or other reporting requirements or under the service level agreement with user organisations in that jurisdiction. Reports on controls prepared under the reporting framework of another jurisdiction may also meet the needs of domestic user entities and user auditors where those reports include the equivalent evidence which would be contained in a Type 1 Report. The user auditor may obtain information about the standards used by the service auditor from the standard setting organisation.

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23. In order to obtain a sufficient understanding of the user entity's internal control to plan the audit, the user auditor considers available reports on controls at the service organisation for an appropriate period or as at an appropriate date, along with information obtained at the user entity to understand:²¹

(a) The aspects of the service organisation's controls that may affect the processing of the user entity's transactions, including the use of sub-service organisations.

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¹⁹ See ASA 402 paragraph 12

²⁰ See ASA 402 paragraph 13

²¹ See ASA 402 paragraph 14 and A22.

(b) The flow of significant transactions through the service organisation to determine the points in the transaction flow where material misstatements in the user entity's financial report could occur;

(c) The control objectives at the service organisation that are relevant to the user entity's financial report assertions; and

17(d) Whether controls at the service organisation are suitably designed and implemented to prevent or detect processing errors that could result in material misstatements in the user entity's financial report.

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Assessing the Risks of Material Misstatement and Designing Further Audit Procedures

1824. Where the user auditor concludes that the investment management services provided by the service organisation are significant to the user entity and relevant to the audit, in that those services are part of the user entity's information system relevant to financial reporting, the user auditor, in order to identify and assess the risks of material misstatement and design further audit procedures, considers matters such as:

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- The effectiveness of the user entity's monitoring controls over the outsourced investment management services provided by service organisations. The less effective the monitoring controls at the user entity, the greater the level of enquiry the user auditor undertakes in relation to the service organisation's controls.²²
- The accuracy and timeliness of the reports and information received from the service organisation in previous periods. The user entity may rely on the financial information contained in the Statement from the service organisation in the preparation of their financial report. Past inaccuracies may increase the assessed risk of material misstatement

²² Examples of controls that might be established by the user entity over the service organisation's services, are provided in ASA 402 paragraph A12.

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with respect to particular assertions such as completeness, rights and obligations and valuation.

- The occurrence of significant control weaknesses deficiencies in the system of control of the service organisation or in the monitoring or complementary controls of the user entity in the past.
- Information available regarding any changes in the service organisation's control systems since the date of the last audited information²³.
- Any changes in the contract or service level agreement between the user entity and the service organisation.
- Information available which may impact the financial viability or reputation of the service organisation²⁴.
- Any history of disagreements between the user entity and the service organisation.
- Any unexplained, unjustified or repeated delays in reporting by the service organisation.
- Situations which may reflect on the service organisation's independence from the user entity.

25. If the user auditor concludes that the risk of material misstatement will not be affected by the controls at the service organisation under ASA 402 or that it is more appropriate to gather the evidence required by alternative procedures, which may include obtaining a Special Purpose Service Auditor's Report on a specified assertion or on a financial statement, then a Type 1A or a Type B Controls Report is not necessary. If there is a high degree of

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²³ Examples of procedures the user auditor may perform to update the information in a type 1 or type 2 report, are provided in ASA 402 paragraph A23. Relevant factors in determining what additional audit evidence to obtain about controls at the service organisation that were operating outside of the period covered by the service auditor's report, are provided in ASA 402 paragraph A33.

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²⁴ Sources of information are listed in ASA 402 paragraphs A1 and A2.

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interaction between the activities of the service organisation and the user entity, the user auditor may be able to rely on monitoring controls at the user entity and not require evidence of the operating effectiveness of controls at the service organisation. Tests of monitoring controls could include testing the user entity's independent re-performance of selected items processed by the service organisation or testing the user entity's reconciliation of output reports with source documents.²⁵

Using a Type A Controls Report

20 In planning the audit of the user entity, the user auditor may be unable to obtain a sufficient understanding of the user entity and its environment in order to identify and assess the risks of material misstatement and to design further audit procedures, from the information available at the user entity regarding the services provided by the service organisation. In which case, the user auditor can either use a Type A Controls Report, on design and implementation of controls, or, where possible, visit the service organisation to obtain the information required, under ASA 402.

21 In applying ASA 402, it may be more efficient for all parties concerned if the user auditor obtains a Controls Report rather than visiting the service organisation. A Type A Controls Report is sufficient for this purpose, however, if an appropriate Type B Controls Report is already available, this also contains the information required.

22 The service organisation may provide Controls Reports to user entities prepared under legislation or auditing standards applicable in another jurisdiction, to meet its statutory or other reporting requirements or under the service level agreement with user organisations in that jurisdiction. Reports on controls prepared under the reporting framework of another jurisdiction may also meet the needs of domestic user entities and user auditors where those reports include the equivalent evidence which would be contained in a Type A Controls Report.

23 In order to obtain a sufficient understanding of the user entity's internal control to plan the audit, the user auditor considers available reports on controls at the service organisation, along with information obtained at the user entity to:

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²⁵ See ASA 402 paragraph A7.

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(a) understand aspects of the service organisation's controls that may affect the processing of the user entity's transactions; and

(b) understand the flow of significant transactions of the user entity through the service organisation.

2426. In assessing the risks of material misstatement and designing further audit procedures, the user auditor uses the ~~Controls~~ Type 1 Report to:²⁶

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(a) ~~identify the control objectives and allied controls in the Service Organisation's Controls Report which are relevant to assertions regarding the user entity's balances or transactions being audited by the user auditor;~~

Comment [CG21]: Covered by para.23(C)

~~determine whether it provides sufficient appropriate audit evidence that the relevant controls are suitably designed to achieve the identified control objectives to prevent or detect processing errors that could result in material misstatements in the user entity's financial report, if those controls were operated effectively; and~~

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(a) determine whether the user auditor will seek to rely on certain controls to reduce the level of substantive procedures by obtaining evidence of the operating effectiveness of those controls; ~~and-~~

Comment [CG22]: Covered by para.23(d)

(b) ~~Determine whether complementary user entity controls identified by the service organisation are relevant to the user entity and, if so, determine obtain an understanding of whether those controls have been designed and implemented by the user entity.~~²⁷

2527. A Type ~~A-Controls~~ 1 Report cannot be relied upon to reduce the level of substantive procedures conducted by the user auditor, as it does not provide any evidence of the operating effectiveness of those controls. Consequently, the usefulness of a Type ~~A-Controls~~ 1

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²⁶ See ASA 402 paragraph A22.

²⁷ See ASA 402 paragraph 14(c).

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Report to a user auditor is limited to planning the audit, assessing the risk of material misstatement and designing further audit procedures.

Responding to Assessed Risks of Material Misstatement

26.28. Under ASA 402²⁸, when responding to assessed risks, the user auditor:

- 26(a) Determines whether sufficient appropriate audit evidence concerning the relevant financial report assertions is available from records held at the user entity; and, if not
- b) Performs further audit procedures to obtain sufficient appropriate audit evidence or uses another auditor to perform those procedures at the service organisation on the user auditor's behalf.

26.29. When the user auditor's risk assessment includes an expectation of the operating effectiveness of the service organisation's controls, or when substantive procedures conducted at the user entity alone do not provide sufficient appropriate audit evidence at the assertion level, guidance in ASA 402 states that the user auditor may require audit evidence from tests of controls. ASA 402 also provides three methods of obtaining audit evidence of the operating effectiveness of controls over the investment management services provided by the service organisation, either that controls at the service organisation over the investment management services provided are operating effectively. ASA 402²⁹ requires audit evidence of the operating effectiveness of controls to be obtained by either:

- (a) Obtaining a Type 2 report, if available performing tests of the user entity's monitoring controls over the activities of the service organisation;
- (b) obtaining a Type B Controls² Report on the design, implementation and operating effectiveness of the service organisation's controls over services relevant to the

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²⁸ See ASA 402 paragraph 15.
²⁹ See ASA 402 paragraph 16.

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~~audit performing appropriate tests of controls at the service organisation; and/or and/or~~

(c) ~~visiting the service organisation and performing tests of controls; using another auditor to perform tests of controls at the service organisation on behalf of the user auditor.~~

30. Method (a) above, ~~performing tests of user entity controls obtaining a Type 2 report, ordinarily is the most efficient method of gathering evidence of operating effectiveness of controls, where the service auditor conducts controls testing at the service organisation for use by multiple user auditors. Consequently, this Guidance Statement is based on the expectation of the provision of a Type 2 Report regarding investment management services provided to user entities³⁰.~~

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Comment [CG23]: Covered in para.31 ref ASA 402 para 17 there.

2831. ~~It may be effective on its own only if there is a high degree of interaction between the activities of the service organisation and the user entity. Tests of this kind could include testing the user entity's independent re-performance of selected items processed by the service organisation or testing the user entity's reconciliation of output reports with source documents. Typically there is a low level of interaction between the activities of the service organisation and the user entity where investment management services are provided, in which case this method may be only effective in combination with method (b) or (c) methods (b) and (c). Method (c) ordinarily is not efficient for all parties involved, where a service organisation provides investment management services to numerous user entities, because it involves multiple user auditors or another auditor whom they have engaged individually visiting the service organisation³¹. Therefore this Guidance Statement does not provide any further~~

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Comment [CG24]: A27 & A28 relate to report on a Statement or assertions – ref later.

³⁰ ~~Procedures outlining how the auditor shall determine whether the service auditor's report provides sufficient audit evidence about the effectiveness of the controls, are provided in ASA 402 paragraph 17. Procedures that may be considered by the user auditor in determining the nature and extent of audit evidence to be obtained in relation to balances representing assets held or transactions undertaken by a service organisation on behalf of the user entity, are provided in ASA 402 paragraphs A25 and A26.~~

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³¹ ~~Further guidance is provided in ASA 402 paragraphs A27 and A28.~~

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~~guidance on method (c) for gathering evidence of the operating effectiveness of controls.~~

~~30. Method (b) ordinarily is the most efficient method of gathering evidence of operating effectiveness of controls, where the service auditor conducts controls testing at the service organisation for use by multiple user auditors. Consequently, this Guidance Statement is based on the expectation of the provision of a Type B Controls Report regarding investment management services provided to user entities.~~

Comment [C25]: Moved up

~~28. If reports on controls are prepared under legislation or auditing standards applicable in another jurisdiction, those reports may also meet the needs of domestic user entities and user auditors where those reports include the equivalent evidence which would be contained in a Type B Controls Report. The user auditor may obtain information about the standards used by the service auditor from the standard setting organisation.~~

~~*Using a Type B Controls Report*~~

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~~32. A Type B Controls Report comprises a Service Organisation's Description of its System and an Assertion Controls Report on the description, design, implementation and operating effectiveness of controls (Appendix 2 Section A), designed to meet control objectives (Appendix 23 Section B) for the investment management services provided to user entities, accompanied by a Service Auditor's Controls Report thereon (Appendix 24 Section C). Other reports may be required by the user entity as set out in the contract and/or service level agreement for purposes such as monitoring the performance of the service organisation, however the reports covered by this Guidance Statement are limited to those that may be used by user auditors as audit evidence for the audit of the user entity's financial report.~~

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~~33. In addition to using a Type B Controls Report in planning the audit, assessing the risks of material misstatement and designing further audit procedures as described in paragraph 223 and 234, if the user auditor evaluates auditor's risk assessment includes an expectation that relevant controls at the usefulness and appropriateness of a~~

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~~service organisation are operating effectively, then the Type 2 Controls Report~~ ~~as may provide~~ audit evidence that the service organisation's controls are operating effectively for certain assertions regarding the user entity's balances or transactions.

~~3234.~~ If the user auditor plans to use a Type 2 report, ~~in doing so, under ASA 402³² requires,~~ the user auditor ~~applies to evaluate~~ ~~determines~~ whether the service auditor's report provides the requirements in ~~ASA 402~~ ~~sufficiency and appropriateness of the service audit evidence provided by the type 2 Report~~ about the effectiveness of the controls to support the user auditor's risk assessment by ~~evaluating whether the date or period covered by the report is appropriate for the user auditor's purposes, determining whether relevant complementary user entity controls are designed, implemented and operating effectively, evaluating the time period covered by the tests of controls and whether those tests are relevant to the assertions in the user entity's financial report.~~ in particular:

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~~31.~~ Considers the sufficiency and appropriateness of the evidence provided by the Controls Report about the operating effectiveness of controls intended to prevent or detect material misstatements for relevant assertions.

~~35.~~ When ~~C~~ ~~considering~~ the sufficiency and appropriateness of the audit evidence in paragraph 33, the user auditor determines whether:

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~~i.~~(a) each of the control objectives specified in this Guidance Statement for the relevant investment management service/s have been addressed in the ~~s~~Service Organisation's ~~description of its system and assertion~~ Controls Report;

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~~ii.~~(b) the related controls identified have been reported on by the service auditor; and

³² See ASA 402 paragraph 17 and 18.

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~~iii.(c)~~ adequate justification has been provided by the service organisation for any control objectives for which no related controls are identified.

~~(d) — Considers complementary user entity controls, if any, including those identified in the Service Organisation’s Controls Report;~~

~~(d) Assesses the testing performed by the service auditor and the results of the tests, relevant to assertions regarding the user entity’s balances or transactions.~~

~~(e) Considers the professional competence of the service auditor in the context of the specific assignment undertaken.~~

~~(e) — Considers~~

36. ~~Considerings whether~~ When the service organisation has used a sub-service organisation in providing investment management services to the user entity and, if so, ~~and those services are excluded from the type 1 or 2 report,~~ ASA 402 requires, whether the relevant controls of the sub-service organisation have been included in the “Service Organisation’s Controls Report. If they have not, the user auditor considers whether those services of the sub-service organisation are significant relevant to the audit of the user entity, the user auditor to apply the requirements of ASA 402 with respect to the services of and, if so, whether a Type A or B Controls Report is required from the sub-service organisation.³³

337. A Type B ~~Controls~~² Report addresses the controls of the service organisation over the specified investment management service/s generally and not specifically the transactions or services relating to an individual user entity. Consequently, if the user auditor intends to use such a report, the user auditor considers the relevance of the stated control objectives and controls to the user entity and determines which additional procedures and/or assurance, if any, may be required in gathering sufficient appropriate audit evidence

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³³ See ASA 402 paragraph 18.

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with respect to transactions and balances of the user entity related to the investment management services provided.³⁴

3438. A Type **B-Controls²** Report, containing an unmodified opinion, ordinarily provides the user auditor with sufficient appropriate audit evidence as to the reliability of controls over the investment management services provided by the service organisation to the user entity and accordingly may enable the user auditor to reduce the extent of substantive testing that might otherwise have been necessary with respect to the balances or transactions subject to those services.

3539. A Type **B-Controls²** Report does not eliminate the need for substantive procedures altogether, as ASA 330 requires the auditor, irrespective of the assessed risk of material misstatement, to design and perform substantive procedures for each material class of transactions, account balance and disclosure.³⁵

Controls-Reports on Controls Issued on a Different Reporting Date to the User Entity’s Financial Report

3640. The reporting date or reporting period of the user entity may differ from the date or period end for which the service organisation issues a Type **1A** or **B-Controls²** Report, in which case ASA 420³⁶ requires that the user auditor evaluate whether that date or period is appropriate for the user auditor’s purposes. It may still assist the user auditor in obtaining a preliminary understanding of the controls implemented at the service organisation if the report is supplemented by additional current information from other sources. The longer the interval between the last date for which a **Controls-Report on controls** is available and the reporting date of the user entity (“the interval”), the less assurance the **Controls-Report on controls** provides. Where the reporting dates differ, the user auditor

Comment [CG26]: These paras relate to reporting not to substantive procedures.

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³⁴ See ASA 402 paragraph A31 for further application material on factors to consider in evaluating the sufficiency and appropriateness of the audit evidence provided by the service auditor’s report.

³⁵ For guidance on reference to the work of a service auditor in the user auditor’s report, refer to ASA 402 paragraphs 21 and 22.

³⁶ See ASA 402, paragraph 17(a).

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considers which procedures are necessary to obtain sufficient appropriate audit evidence regarding the design and implementation of the service organisation's controls at the user entity's reporting date and, if required, operating effectiveness of those controls over the interval.³⁷

3741. In determining the procedures to perform additional audit evidence to obtain about controls at the service organisation operating outside of the period covered by the service auditor's report, the user auditor considers:³⁸

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- (a) the length of the interval; The significance of the assessed risks of material misstatement at the assertion level;
- (b) the results of the risk assessment; and The specific controls that were tested during the interim period, and significant changes to them since they were tested, including changes in the information system, processes, and personnel;
- (c) the availability of information concerning controls relating to the interval, including Controls Reports issued after the user entity's balance date; The degree to which audit evidence about the operating effectiveness of those controls was obtained;
- (d) The length of the remaining period;
- (e) The extent to which the user auditor intends to reduce further substantive procedures based on the reliance on controls; and
- (e) (f) The effectiveness of the control environment and monitoring of controls at the user entity.

3842. The user auditor considers the assessed risks of material misstatement relating to the services provided by the service organisation and exercises professional judgement in determining

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³⁷ See ASA 402, paragraphs A32-A35.
³⁸ See ASA 402, paragraph A33.

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the extent of additional procedures required to obtain sufficient appropriate audit evidence. Examples of the type of procedures which the user auditor might conduct for different length intervals are detailed in paragraphs 42389 to 4623, however the user auditor adjusts these procedures depending on the assessed risks.

3943. For a Type A Controls 1 or 2 Report that is for a date or for a period that is outside of the reporting period of a user entity, the user auditor ~~conducts procedures to determine whether there have been changes to the service organisation's controls in the interval~~ may supplement the preliminary understanding of the controls by additional current information from other sources. ~~The user auditor may perform procedures such as~~ these procedures may include:

- ~~Discussions with those charged with governance, management or others within the user entity in a position to know about changes at the service organisation.~~ Discussing the changes at the service organisation with user entity personnel who would be in a position to know of such changes;
- ~~A review of relevant documentation and correspondence with the service organisation.~~ Reviewing current documentation and correspondence issued by the service organisation; or
- ~~Discussions with those charged with governance, management or others within the service organisation or with the service auditor.~~ Discussing the changes with service organisation personnel.

4044. If the user auditor determines that there have been changes in the service organisation's controls in the interval which may be significant to the user entity's audit, the user auditor seeks to gain an understanding of the changes and considers the effect of those changes on the assessed risks of material misstatement and on the design of further audit procedures.

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4145. For a Type **B-Controls2** Report on design, implementation and operating effectiveness of controls, where the interval is short, such as a period of up to three months, the user auditor may conduct the procedures listed in paragraph 4239 to identify any changes in the controls described in the Type **B-Controls2** Report. In addition, the user auditor may seek a written representation from the service organisation regarding the continued operating effectiveness of controls identified in the Type **B-Controls2** Report and the operating effectiveness of any new controls implemented during the interval, particularly those relevant to the user entity's audit. Further tests of the operating effectiveness of those controls may be necessary where the changes implemented are significant to the audit of the user entity³⁹.

4246. For a longer interval, such as in excess of three months, up to and including six months, in addition to conducting the procedures in paragraph 4244, the user auditor may request the user entity to obtain evidence from the service organisation that the controls are still in place and that any new controls are operating effectively. This may take the form of a service auditor's review or an agreed-upon procedures engagement.

4347. For a long interval, such as in excess of six months, the user auditor considers the sufficiency and appropriateness of the available audit evidence and, where further evidence is required, the user auditor:

- Conducts alternative audit procedures.
- Requests that the user entity to obtain a new Type **B-Controls2** Report under this Guidance Statement from the service organisation.
- Visits the service organisation to gather the evidence required.

³⁹ Additional guidance on further procedures that can be carried out to obtain additional audit evidence, are provided in ASA 402 paragraphs A34 to A37.

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If sufficient appropriate audit evidence is not available from any of these sources, the user auditor considers whether modifications to the user auditor's report are necessary.

Comment [CG27]: PAG confirm that leaving this in is appropriate given different wording from ASA 402 paras A35-A37.

Assessing Exceptions-Deviations Reported or a Modified Opinion on Controls

4448. Controls-Type 1 and 2 Reports are prepared for the purposes of multiple user entities, not specifically for the purposes of any individual user auditor. Exceptions-Deviations noted by the service auditor or a modified opinion in the Service Auditor's Controls Report do not imply that the Service Auditor's Controls Report is not useful for the audit of the user entity's financial report. Rather, the exceptions-deviations and the matters giving rise to a modified opinion in the Service Auditor's Controls Report are considered in the user auditor's assessment of the results of the testing of controls performed by the service auditor.⁴⁰

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4549. The user auditor makes the user auditor's own assessment of the materiality, in relation to the user entity, of the control exceptions-deviations identified in the Service Auditor's Controls-Type 1 or 2 Report in determining whether those exceptions-deviations amount to material weaknesses/significant deficiencies to be reported to those charged with governance as described in paragraph 62589 and in deciding on an appropriate response.⁴¹ Such a response may include obtaining an agreed-upon procedures report regarding the areas of material weakness, including whether any compensating controls exist, or obtaining a Special Purpose Service Auditor's Report, discussed in paragraphs 456 to 534.

Comment [CG28]: This response is not usually going to be necessary.

Using a Special Purpose Service Auditor's Report on Financial Information

4650. Whilst the user auditor may be able to rely on a Type B-Controls2 Report as audit evidence of the operating effectiveness of controls to mitigate identified risks of material misstatement, a Type B

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⁴⁰ See ASA 402 paragraph A38.

⁴¹ See ASA 402 paragraph A38.

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~~Controls~~² Report alone cannot provide sufficient appropriate audit evidence with respect to material balances or classes of transactions of the user entity. ASA 330⁴² requires the user auditor to design and perform substantive procedures for each material class of transactions, account balance and disclosure. The manner in which substantive procedures may be conducted is discussed in paragraphs ~~50478~~ and ~~51489~~.⁴³

~~4751.~~ Service organisations which provide investment management services may provide the user entity with a **single financial** statement ~~of regarding~~ financial information of the user entity ~~(a~~ “Statement”) periodically in accordance with ~~either a general purpose framework⁴⁴ or special purpose framework⁴⁵~~ a financial reporting framework designed to meet the needs of the user entity. Examples of a Statement include: a portfolio valuation report, a financial report or a component of a financial report. The requirements of the applicable financial reporting framework determine the form and content of the Statement. An un-audited Statement is an unverified source of evidence, which is a representation not independent from the user entity. If the financial report of the user entity has been prepared using un-audited financial information obtained from the service organisation, such information may not constitute sufficient appropriate audit evidence on which the user auditor could form an opinion.

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~~4852.~~ The user auditor’s procedures at the user entity with respect to the balances and transactions relating to the services provided by the service organisation may be limited to:

- A review of the contract or service level agreement between the user entity and the service organisation so as to understand the rights and obligations of each party.

⁴² See ASA 330 paragraph 18.

⁴³ See ASA 402, paragraphs A27 and A28 for further application material on conducting substantive procedures at a service organisation.

⁴⁴ See ASA 700, paragraph 7(b) for definition of general purpose framework.

⁴⁵ See ASA 800, paragraph 6(b) for definition of special purpose framework.

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- A review and evaluation of the monitoring controls exercised by the user entity over the service organisation.
- A review of representations given by the service organisation concerning the user entity's balances or transactions.
- Verification of the receipt of income from the service organisation (if not re-invested).
- Analytical procedures on the financial information supplied by the service organisation.
- A review of the most recent audited financial report of the service organisation.

Procedures conducted at the user entity alone, or even in combination with a Type 1A or B-Controls2 Report on the relevant investment management services, may not generate sufficient appropriate audit evidence.

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4953. The user auditor exercises professional judgement to determine whether procedures conducted at the user entity as described in paragraph 478, considered alone or in combination with a Type A-1 or B-Controls2 Report, provide sufficient, appropriate evidence on which to form an audit opinion. If the user auditor requires further audit evidence, which the user auditor believes to be held at the service organisation, the user auditor either:

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- (a) obtains a Special Purpose Service Auditor's Report on financial information; or
- (b) gains access to the records and other information relating to the user entity in the possession of the service organisation.

5054. As with the Controls-Type 1 or 2 Report, it may be more efficient, for all parties concerned, if the user auditor can obtain the audit evidence required from the service auditor. Individual circumstances determine whether a Special Purpose Service Auditor's Report on financial information is the more effective or

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efficient method of obtaining the audit evidence required by the user auditor. If the user auditor is able to specify whether the service auditor prepares a ~~Special Purpose~~ Service Auditor's Report on specified assertion or on a Statement, the user auditor must exercise professional judgement to make this determination in the particular circumstances of the engagement.

~~5155.~~ A Service Auditor's Report on a Statement, as defined in paragraph 4(b)ii, may be the most effective way to obtain sufficient appropriate audit evidence for all assertions regarding the user entity's balances or transactions contained in the Statement provided by the service organisation. This type of report may also be required by the user auditor if there is a potential or identified significant ~~weakness~~ deficiency in the service organisation's controls, or there are material errors identified in the service organisation's reports.

~~5256.~~ The user auditor may be able to obtain sufficient appropriate audit evidence only for certain assertions relating to the user entity's balances or transactions contained in the Statement from information available from the user entity's records and from audit procedures performed thereon by the user auditor. For the remaining assertions, a Service Auditor's Report on Specified Assertions, as defined in paragraph 4(b)(i), may be the most efficient and effective way of obtaining the audit evidence required. This may include any of the assertions identified in ~~Auditing Standard-ASA 500-315~~⁴⁶, which are:

- (a) for classes of transactions ~~and~~ events for the period under audit: occurrence, completeness, accuracy, cut-off and classification;
- (b) for account balances at the period end: existence, rights and obligations, completeness, valuation and allocation; and
- (c) for presentation and disclosure: occurrence ~~and~~, rights and obligations, completeness, classification and understandability and accuracy and valuation.

⁴⁶ See ASA 315 Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment, paragraph A111.

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In many circumstances, the use of a Service Auditor's Report on Specified Assertions in conjunction with a Type ~~B Controls~~² Report provide the user auditor with sufficient appropriate audit evidence concerning the balances or transactions reported in the Statement.

~~53~~⁵⁷. In evaluating the audit evidence provided by a ~~Special Purpose~~ Service Auditor's Report on financial information, the user auditor considers:

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- (a) the professional competence of the service auditor in the context of the assignment conducted;
- (b) the sufficiency and appropriateness of the evidence, whether on its own or in conjunction with a ~~Controls Type 1 or 2~~ Report, provided by the Service Auditor's ~~Special Purpose~~ Report on financial information regarding the assertions on which evidence is required;
- (c) the impact of any modification to the Service Auditor's ~~Special Purpose~~ Report on financial information on the sufficiency and appropriateness of the evidence provided by the report;
- (d) the effect of any uncorrected misstatements reported by the service auditor in an attachment to their report, as described in paragraph 138; and
- (e) the effect of any other matters, including significant deficiencies in internal control, significant findings from the audit matters of governance interest or fraud, identified during the audit or reported by the service organisation to the user entity.

~~54~~ In order to determine whether any matters of governance interest have come to the attention of the service auditor in relation to the services provided by the service organisation to the user entity, the user auditor considers any report or communication from the service organisation detailing these matters or, in the absence of such a report, the user auditor requests the user entity to inquire about whether any matters of governance interest have been

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communicated by the service auditor to the service organisation as described in paragraph 119 or paragraph 137.

Comment [CG29]: Duplicates para.61.

Materiality for ~~Special Purpose~~ Service Auditor's Reports on Financial Information

~~5558.~~ Paragraphs ~~13842~~ to ~~13944~~ of this Guidance Statement provide an appropriate basis for the service auditor to determine materiality for auditing specified assertions or a Statement. The user auditor, in ~~making a preliminary assessment of~~determining performance materiality, ~~under Auditing Standard ASA 320-⁴⁷ for the classes of transactions, account balances or disclosures effected by the services of the service organisation~~ Materiality and Audit Adjustments, may determine that the ~~performance quantitative~~ materiality level which would be determined by the service auditor in applying this Guidance Statement is not suitable for the purposes of the audit of the user entity's financial report. In these circumstances, the user auditor may request that an alternative benchmark and/or percentage is used by the service auditor to determine quantitative performance materiality. The manner in which such a request is ordinarily communicated is discussed in paragraphs ~~56607~~ and ~~57618~~.

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~~5659.~~ The user auditor makes the user auditor's own assessment of the materiality of any uncorrected misstatements communicated by the service auditor in the attachment, if any, to the Special Purpose Service Auditor's Report on financial information provided as described in paragraph ~~1368~~, with respect to the audit of the user entity's financial report.

Communicating with the Service Auditor

~~5760.~~ Ordinarily, the user auditor does not communicate directly with the service auditor, communication is through the user entity and service organisation. The user auditor communicates requirements with respect to the service auditor's work as early as possible to the user entity. These requirements are then communicated by the user entity to the service organisation, either under the terms of a contract or

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⁴⁷ ASA 330 *Materiality in Planning and Performing an Audit*, paragraphs 11 & A12.

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service level agreement⁴⁸ or by means of a specific request. In turn, these requirements are communicated by the service organisation to the service auditor and key requirements ordinarily are reflected in the service auditor's engagement letter with the service organisation.

~~5861.~~ The user auditor's engagement letter may contain requirements for the user entity to obtain from the service organisation, where possible, ~~Controls-Type 1 or 2 Reports~~ or ~~Special Purpose Service Auditor's Reports~~ on financial information.

Communicating With Those Charged With Governance of the User Entity

~~5962.~~ The user auditor is required under the Auditing Standards to communicate any of the following matters identified to those charged with governance, ~~or the appropriate level of management,~~ of the user entity on a timely basis:

- (a) ~~material weaknesses, significant deficiencies~~ -in internal control identified during the audit; ~~(ASA 315⁴⁹);~~
- (b) ~~significant findings from the audit~~ audit matters of governance interest (Auditing Standard ASA 260⁵⁰ Communication of Audit Matters with Those Charged with Governance);
- (c) uncorrected misstatements and the effect they aggregated by the user auditor during the audit that were determined by management to be immaterial, both individually and or in aggregate, may have on the opinion in the auditor's report to the financial report taken as a whole⁵¹ (ASA 260); and
- (d) fraud, identified or suspected involving management, employees who have significant roles in internal control -or information that indicates that a fraud may exist ~~others~~

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⁴⁸ See ASA 402 paragraph A8.

⁴⁹ See ASA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, paragraph 9.

⁵⁰ See ASA 260 *Communication with Those Charged with Governance*, paragraph 16.

⁵¹ See ASA 450 *Evaluation of Misstatements Identified during the Audit*, paragraph 12.

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where the fraud results in a material misstatement, as well as any other matters related to fraud that are relevant to their responsibilities.⁵² ~~(Auditing Standard ASA 240 The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report).~~

~~60~~63. In determining whether there are any matters which the user auditor needs to report to those charged with governance of the user entity, as outlined in paragraph ~~62~~58~~9~~, with respect to the investment management services provided by the service organisation, the user auditor's procedures may include:

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- A review of documentation and correspondence at the user entity regarding oversight and monitoring of the performance of the contract and/or service level agreement by the service organisation.
- Enquiries of those charged with governance, management or others within the user entity regarding whether any of the matters listed in paragraph ~~59~~62 have been reported by the service organisation to the user entity.
- Identification of any exceptions reported by the service auditor in the ~~Controls Type 1 or 2~~ Report and evaluation of whether those exceptions ~~are material~~represent significant deficiencies ~~to~~in the user entity's internal controls.
- Enquiries regarding the reasons for any modification to the Service Auditor's ~~Controls Type 1 or 2 or Special Purpose~~ Report or report on financial information.
- Identification of any uncorrected misstatements reported by the service auditor, in an attachment to the ~~Special Purpose~~ Service Auditor's Report on financial information as described in paragraph ~~13~~68 of this Guidance Statement.

⁵² See ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*, paragraph 41 and 42.

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~~61~~64. ASA 402⁵³ requires t~~he user auditor to enquire of management of~~ may request the user entity to inquire about whether the service organisation has reported to the user entity, or the user entity is aware of, any fraud, non-compliance with laws and regulations or uncorrected misstatements affecting the financial report of the user entity. These matters of governance interest that may affect the user entity may have been communicated by the service auditor to the service organisation as described in paragraphs 119 or 137. In addition, A~~a~~ service organisation may be required under the contract or service level agreement with the user entity to disclose matters including those listed in paragraph 59 that may affect the user entity. The user auditor evaluates the effect of any matters reported on the nature, timing and extent of further audit procedures. ⁵⁴

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~~61~~65. Where the user auditor does not have sufficient information regarding the matters of governance interest to fulfil the user auditor's responsibility as outlined in paragraph 59, the user auditor may request further information to be provided. Whilst this information may be provided by the service auditor, the request is ordinarily made through the user entity.

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62 Reporting by the User Auditor

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~~62~~66. If the user auditor concludes that the user entity's financial report contains material misstatements with respect to the services provide by the service organisation or that the user auditor is unable to obtain sufficient appropriate audit evidence regarding the services provided by the service organisation relevant to the audit to form an opinion, ASA 705 requires the user auditor to modify their opinion on the user entity's financial report. ⁵⁵

~~62~~67. In accordance with ASA 402⁵⁶ and the Auditing Standards, the user auditor does not refer to the work of a service auditor in the user

⁵³ See ASA 402, paragraph 19.

⁵⁴ See ASA 402, paragraph A41.

⁵⁵ See ASA 705, paragraph 6 and ASA 402, paragraph 20.

⁵⁶ See ASA 402 paragraph 21 and 22.

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auditor's report, unless required to do so by law or regulation or if it is relevant to understanding a modification to the user auditor's opinion.

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B: GUIDANCE FOR THE SERVICE AUDITOR

Types of Engagements

~~63~~68. Under a contract or service level agreement, the service organisation may agree to provide periodically the user entity with a Type ~~A-1~~ or ~~B-2 Controls Report~~ on controls with respect to the services provided to the user entity and/or a Statement, with respect to the user entity's assets, liabilities or transactions recorded by the service organisation for the period, accompanied by a ~~Special Purpose~~ Service Auditor's Report on the Statement or specified assertions.

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Engagements to Report on Controls

Nature of Engagement

69. Service auditor's engagements to ~~provide Type 1 or 2 R~~reports on controls are assurance engagements, which are defined under the *Framework for Assurance Engagements* as engagements in which the auditor expresses a conclusion or opinion about the outcome of the evaluation of a subject matter against criteria. The service auditor evaluates the controls at the service organisation over the investment management services provided to user entities (the subject matter), expressed in the ~~s~~Service ~~o~~rganisation's description of its system Controls Report (subject matter information), against control objectives (criteria). The service auditor applies the requirements and considers the guidance application material in ASAE ~~3000-3402 and ASAE 3000~~ when conducting assurance engagements on controls at a service organisation.

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The control objectives collectively reflect the level of control over user entities' balances or transactions that the user entity could reasonably expect from the service organisation for the purpose of the user entity's financial reporting. The service organisation's controls are designed to meet those control objectives. Appendix ~~2-Section B-3~~ sets out the control objectives which the user entity can expect to be included in Type ~~A-1~~ or ~~B-Controls-2~~ Reports for each of the relevant investment management services. The service organisation may choose to include additional control objectives in

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the Controls Type 1 or 2 Report. Additional control objectives may be included where those objectives are relevant to user entities' financial reporting or to meet compliance reporting requirements or the terms of the service level agreement or contract.

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Acceptance and Continuance of Engagements to Report on Controls

66. The scope and purpose of the engagement between the service auditor and the service organisation needs to be clearly understood and agreed. In meeting the requirements of ASAE 3402⁵⁷, before agreeing to accept, or continue an engagement, the service auditor:

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(a) Determines whether:

(i) The service auditor has the capabilities and competence with respect to the relevant investment management services to perform the engagement;

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(ii) The criteria, including the investment management services control objectives, to be applied by the service organisation to prepare the description of its system will be suitable and available to user entities and their auditors; and

(iii) The scope of the engagement and the service organisation's description of its system will not be so limited that they are unlikely to be useful to user entities and their auditors, such as exclusion of aspects of the service offering.

(b) Obtains the agreement of the service organisation that it acknowledges and understands its responsibility:

(i) For the preparation of the description of its system and accompanying service organisation's assertion, including the completeness, accuracy,

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⁵⁷ See ASAE 3402, paragraph 13.

and method of presentation of that description and assertion.

(ii) To have a reasonable basis for the service organisation's assertion accompanying the description of its system.

(i)

(iii) For stating in the service organisation's assertion the criteria it used to prepare the description of its system.

(iv) For stating in the description of its system the control objectives, including the minimum controls objectives provided in this guidance statement for the investment management services are provided by the service organisation.

(iii) For identifying the risks that threaten achievement of the control objectives stated in the description of its system, and designing and implementing controls to provide reasonable assurance that those risks will not prevent achievement of the control objectives stated in the description of its system, and therefore that the stated control objectives will be achieved; and

(v)

(vi) To provide the service auditor with

a. Access to all information, such as records, documentation and other matters, including service level agreements, of which the service organisation is aware that is relevant to the description of the service organisation's system and the accompanying service organisation's assertion.

Comment [AC30]: amended to map para 74: responsibilities of the service organisations

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b. Additional information that the service auditor may request from the service organisation for the purpose of the assurance engagement, and

c. Unrestricted access to persons within the service organisation from whom the service auditor determines it necessary to obtain evidence

72. This understanding and agreement is identified in the terms of engagement, set out in an engagement letter, or some other form of written communication, which include:

(a) the objective and scope of the work to be performed by the service auditor;

(b) the service auditor's responsibilities to:

- (i) conduct the engagement in accordance with Standards on Assurance Engagements and with reference to this Guidance Statement,
- (ii) conduct tests and enquiries to form an opinion on the design, implementation (and, for Type B-2 Controls-Reports, operating effectiveness) of the controls contained in the Service Organisation's ~~Controls Report~~ Description of the System either as at period end (for Type A-1 Controls-Reports) or for the period (for Type B-2 Controls-Reports), and
- (iii) provide a written report on the design, implementation (and, for Type B-Controls-2 Reports, operating effectiveness) of the controls identified in the Service Organisation's ~~Controls Report~~ Description of the System either as at period end (for Type A-Controls-1 Reports) or throughout the period (for Type B-Controls-2 Reports);

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- (e)(c) management's, or those charged with governance's, acknowledgement of their responsibility for the matters identified in paragraph 75(b)4;
- (f)(d) the agreed use of the report and the extent to which, the context in which, and the basis on which, the report may be made available by the service organisation to user entities and user auditors;
- (g)(e) an explanation of the inherent limitations of the work, and for whom the work is being undertaken;
- (h)(f) an overview of the assurance approach and assurance procedures which are to be encompassed by the service auditor's work; and
- (i)(g) a reference to the likely need for management representations.

An example of an engagement letter for engagements to report on controls is shown at Appendix 1 [Section A Example 1](#).

Ethical Requirements

~~6873. ASAE 3000 requires the service auditor to comply with the requirements of the applicable code of professional conduct of a professional accounting body⁵⁸. The service auditor only accepts an engagement to report on controls when the service auditor is satisfied that relevant ethical requirements, ~~This includes ensuring that the engagement team collectively possesses the necessary professional competencies and meets the applicable independence requirements, including those pertaining to independence, relating to assurance engagements,~~⁵⁹ are met as required by ASAE 3402.⁶⁰~~

⁵⁸ ~~In Australia, the applicable code of conduct of the professional accounting bodies is APES 110 *Code of Ethics for Professional Accountants*, as issued from time to time by the Accounting Professional Ethics Standards Board. This code of conduct has been adopted by CPA Australia Ltd., National Institute of Accountants and The Institute of Chartered Accountants in Australia.~~

⁵⁹ ~~See ASA 102 *Compliance with Ethical Requirements when performing Audits, Reviews and Other Assurance Engagements*.~~

⁶⁰ ~~See ASAE 3402, paragraph 11.~~

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This includes ensuring that the engagement team ~~collectively possesses the necessary professional competencies and~~ meets the applicable independence requirements.

~~74.~~ In order to meet ~~these~~ independence requirements ~~of the applicable code of professional conduct of a professional accounting body~~, the service auditor assesses likely threats to independence and, where necessary, applies safeguards.

~~6975.~~ Since the service auditor is engaged to report on the controls over ~~specified the~~ investment management services provided by the service organisation generally and not specifically in relation to any individual user entity, independence requirements do not necessarily extend to each user entity. ~~Under the applicable code, o~~Ordinarily it is sufficient for the service auditor to meet independence requirements with respect to the service organisation when engaged to report on controls over investment management services at the service organisation. However, threats to independence may arise with respect to user entities where there are only one or few user entities for the services subject to audit or sub-service organisations where the controls of the sub-service organisation are included in the Service Organisation's ~~description of its system~~Controls Report, under the inclusive method described in paragraph 83.

~~7076.~~ Service auditors may also need to consider the manner in which their ~~Controls-Type 1 or 2~~ Report is used and distributed by the service organisation. Examples of how this matter may be addressed in the engagement letter and in the Service Auditor's ~~Controls-Type 2~~ Report are contained in Appendix 1 ~~Section A~~Example 1 and Appendix ~~2-4~~Section C respectively.

Responsibilities of the Service Organisation

~~7177.~~ It is for management, or, where appropriate, those charged with governance, of the service organisation to decide whether to prepare a ~~Controls-r~~Report on controls and whether to have this report audited by a service auditor. In certain circumstances, the service organisation may, for example, consider it more appropriate to allow access for user entities and user auditors to the service organisation's records or provide a report on a specific aspect of its operations as

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this impacts an individual user entity. However, this Guidance Statement is only applicable to circumstances where management, or those charged with governance, of the service organisation prepares a ~~Controls Report~~description of its system, for example in a manner consistent with the reporting format illustrated in Appendix 2 ~~Section A~~, and the service auditor is engaged to provide an opinion thereon, as illustrated in Appendix 2 ~~Section C4~~.

~~7278.~~ The service organisation typically prepares ~~one a description of its system Controls Report~~ to meet the needs of all user entities of a particular investment management service or services. The Service Auditor's ~~Controls Type 1 or 2 Report~~ covers investment management services provided to user entities which are likely to form part of those user entities' information systems relevant to financial reporting. The value of a Type ~~A Controls 1~~ Report to the audit of the user entity is limited, so it is appropriate for the service auditor to prepare a Type ~~A Controls 1~~ Report only in the first year of reporting on controls, to provide a starting point for future reports, or if none of the user entities require a report on the operating effectiveness of controls. Circumstances in which the user auditor may require a report only on design and implementation of controls are set out in paragraph 20. Since these circumstances are limited, an example of this report is not provided in this Guidance Statement.

~~7379.~~ The frequency with which the service organisation ~~prepares-provides Controls Reports~~ a report on controls may be agreed in the contract and/or service level agreement between the user entity and the service organisation.

~~7480.~~ In relation to an engagement to report on controls as described in this Guidance Statement, the service auditor can reasonably expect management, or those charged with governance, of the service organisation to be responsible for:

- (a) provision of investment management services to user entities;
- (b) identification of the control objectives relevant to the financial reporting of clients to whom investment

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management services are provided by the service organisation;

- (c) the design, ~~implementation and operation~~ operating effectiveness of controls at the service organisation that provide reasonable assurance that those control objectives will be achieved;
- (d) evaluation of the accuracy of the description, suitability of the design (and for Type B Controls Reports: operating effectiveness) of the service organisation's controls for the relevant period; and
- (e) provision of a written report as described in paragraph 76; and
- ~~(f) disclosing to the service auditor:~~
 - ~~(i) any significant changes in controls, including sub-service arrangements, that have occurred since the previous engagement to report on controls over the specified investment management services or within the last 12 months if the service organisation has not previously engaged the service auditor to issue an assurance report on controls over the specified services;~~
 - ~~(ii) any illegal acts, fraud, or uncorrected errors attributable to the service organisation's management or employees that may affect its user entities and the service organisation's whistle-blowing arrangements;~~
 - ~~(iii) any relevant design deficiencies in controls of which it is aware, including those for which management believe the cost of corrective action may exceed the benefits; and~~
 - ~~(iv) all significant instances of which it is aware when controls have not operated with sufficient~~

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effectiveness to achieve the specified control objectives and identification of those instances which have been reported to user entities.

Comment [CG31]: Covered in written representations.

Assessing the Suitability of the Criteria

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81. In assessing whether the service organisation has used suitable criteria in preparing the description of the system, evaluating whether controls are suitably designed and, in the case of Type 2 reports, in evaluating whether controls are operating effectively, in accordance with ASAE 3402,⁶¹ the service auditor determines whether ~~In order to evaluate the effectiveness of controls, the service organisation uses the minimum control objectives provided in this guidance statement⁶² for the relevant investment management service or services provided in Appendix 2 Section B as suitable criteria are included in the description of the system.~~

82. ~~It is the responsibility of management, or those charged with governance, of the service organisation to ensure that the control objectives are sufficient to meet the expectations of user entities and that any omissions or amendments to the minimum control objectives are appropriate. A service organisation may therefore consider the need to add further objectives and supporting controls where appropriate. The service auditor evaluates the suitability of any additional control objectives specified by the service organisation, by determining if they meet the characteristics of relevance, completeness, reliability, neutrality and understandability.⁶³~~

7583. ~~If the service organisation omits or modifies a control objective from GS 007 or adds further control objectives, the service auditor can expect those omissions, modifications or additional objectives to be clearly identified in the service organisation's description of the system. If a control objective is omitted, the service organisation may list that objective and note briefly the reasons for its omission.~~

⁶¹ See ASAE 3402, paragraphs 15-18 for further requirements in assessing the suitability of the criteria.

⁶² See Appendix 3.

⁶³ See ASAE 3000, paragraph 35-36.

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If a control objective is modified to clarify the intended meaning, such as use of terms appropriate to the service organisation's circumstances, or the control objective is expanded, the relevant GS 007 control objective may be treated as included. However, if the meaning of the control objective is changed or the scope of the objective reduced by the modifications, then it is appropriate for the service organisation to report the relevant GS 007 objective as omitted and report the modified objective as an additional objective in the description of the system.

Comment [CG32]: PwC comment letter 2009.

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Management's Report on the Service Organisation's Controls

- 81 — Typically, under the contract or service level agreement the service organisation agrees to provide user entities with a Type A-1 or B-2 Controls Report, in the manner set out in this Guidance Statement accordance with ASAE 3402, which includes the following key matters:
- (a) — a statement of the responsibilities of management, or those charged with governance, with respect to controls over the investment management services provided to user entities;
 - (b) — assertions by management, or those charged with governance, that they have assessed the controls in place and their opinion that:
 - i. — management's, or those charged with governance's, report describes accurately the controls that relate to the control objectives, including the control objectives specified in this Guidance Statement, which were either in place as at the relevant date, for Type A Controls Reports, or throughout the period, for Type B Controls Reports;
 - ii. — the controls described are suitably designed to achieve the specified control objectives⁶⁴; and
 - iii. — for Type B Controls Reports, the controls described were operating effectively throughout the specified period;
 - (c) — details of any significant deficiencies or exceptions and their impact on the control objectives during the period;
 - (d) — the name and signature of a representative of management, or those charged with governance, signing on behalf of the service organisation;
 - (e) — the date of the report; and

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⁶⁴—Where there are complementary internal controls which are required to be in place at the user entity in order for the service organisation's controls to be effective in meeting their objective, management's assertion includes: "if [user entity] applied the complementary internal controls identified".

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- (f) a section detailing:
 - i. the service organisation's control objectives, including the control objectives specified in Appendix 2 Section B for the relevant services provided, with details of any omitted or amended control objectives considered appropriate by management, or those charged with governance, with explanations for such omissions and amendments;
 - ii. details of the controls designed to achieve the control objectives which were either in place as at period end (for Type A Controls Reports) or in operation throughout the period (for Type B Controls Reports); and
 - iii. where there have been significant changes to controls, details of the controls in operation both before and after the significant change in controls, with the months of operation;

84. An example of a Service Organisation's Controls Report description of its system is shown at Appendix 2-Section A.

8285. Management, or those charged with governance, The service organisation is responsible for the completeness, accuracy, validity and method of presentation of the description of control objectives and controls. The description of controls includes controls that may be relevant to user entities. The service auditor may assist the service organisation in preparing the description; however, the representations in the description are the responsibility of management, or those charged with governance, of the service organisation.

83 The description of control objectives and controls does not necessarily address every service provided by the service organisation. The description presents a level of detail that may provide sufficient information for the user auditor to assess the risk of material misstatement and to design further audit procedures in response to the assessed risk and, in the case of Type B Controls2 Reports, to assess the operating effectiveness of the controls as if a service organisation were not used. However, the description of

Comment [CG33]: Covered adequately in para.5

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controls need not be so detailed as to enable compromise of security or other controls.

~~8486. The service organisation may wish to present other information that is not a part of the description of control objectives and controls in its report: for example background information on the entities involved and the services they provide; or aspects of the service organisation's control environment, risk assessment, monitoring and information and communication processes that may be relevant to the services provided. Where the information of this nature is included, ordinarily it is presented in a separate section of the report and made clear that it does not constitute a part of the service organisation's description of control objectives and controls.~~

Comment [CG34]: This is part of a 3402 description of the system.

Complementary User Entity Controls

~~8087. In rare circumstances, specific controls at the service organisation may be designed design the system with the assumption that user entities have implement certain complementary controls in place in order to achieve the specified control objectives. If this is the case, the description of the controls at the service organisation refers to such complementary internal controls of user entities ("complementary controls").~~

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~~8188. Complementary controls at the user entity may include general controls, such as the authorisation of transactions, the written notification of changes, the timely review of reports provided by the service organisation or appropriate restrictions on access to on-line terminals.~~

Service Organisations That Use Sub-service Organisations

~~8289. When a service organisation uses another service organisation ("sub-service organisation") to perform certain aspects of the services provided to user entities, the service organisation includes a description of the functions and nature of the processing performed by the sub-service organisation in the sService oOrganisation's description of its systemControls Report. The description provides sufficient detail for the user entity and the user auditor to understand~~

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the significance of the sub-service organisation's operations to the processing of the user entity's transactions.

~~8390.~~ If the sub-service organisation's controls may be included in the service organisation's description and in the scope of the service auditor's engagement ("the inclusive method"),⁶⁵ then the sub-service organisation's controls are clearly differentiated from the controls of the service organisation. Under the inclusive method, the control objectives addressed in the report include all of the control objectives which both the service organisation and the sub-service organisation are expected to achieve. To accomplish this, the service organisation co-ordinates the preparation and presentation of the description of controls with the sub-service organisation.

~~8491.~~ In certain limited circumstances, the user entity may agree that if the sub-service organisation's relevant control objectives and allied controls are to be excluded from the service organisation's description and from the scope of the service auditor's engagement ("the exclusive carve-out method"),⁶⁶ the service organisation states in the description that the subservice organisation's control objectives and allied controls are omitted from the description and that the control objectives in the Type 1 or 2 Report include only the objectives which the service organisation's controls are intended to achieve. For example, if the user entity has a contract and/or service level agreement directly with the sub-service organisation under which Controls may issue a Type 1 or 2 Reports are provided or where the sub-service organisation provides Controls Reports to the service organisation which may then be relied upon by the user auditor. In this case, the service organisation states in the description that the sub-service organisation's control objectives and allied controls are omitted from the description and that the control objectives in the Controls Report include only the objectives which the service organisation's controls are intended to achieve.

Service Auditor's Procedures

⁶⁵ Refer to ASAE 3402, paragraph 9(g).

⁶⁶ See ASAE 3402, paragraph 9(a).

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8592. In reporting on the ~~S~~Service ~~O~~Organisation's ~~R~~Report on ~~C~~Controls, the service auditor seeks to obtain sufficient appropriate evidence regarding whether, in all material respects:

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- (a) ~~the accuracy of management's, or those charged with governance's, service organisation's~~ description of ~~controls~~the system fairly presents the system as designed and implemented as at a specified date (in the case of a Type 1 Report) or throughout the specified period (in the case of a Type 2 Report);
- (b) ~~the controls were suitably designed as at a specified date or throughout the specified period to the suitability of the design of the controls~~ to achieve their stated objectives;
- (c) ~~whether the controls have been implemented;~~ and
- (d) ~~whether~~ the controls operated effectively to provide reasonable assurance that the control objectives stated in the service organisation's description of its system were achieved throughout the specified period, for Type ~~B~~ Controls Reports.

Planning

8693. Where ~~Controls Type 1 or 2~~ Reports are prepared ~~following the guidance set out in this Guidance Statement~~in accordance with ASAE 3402, the service auditor's work is planned so as to have a reasonable expectation of detecting ~~material weaknesses~~significant deficiencies in the controls described by ~~management, or those charged with governance~~the service organisation, and tested in accordance with the terms of the engagement. However, the nature, timing and extent of testing need not be designed with the expectation of detecting ~~problems~~deficiencies which may be considered significant from the point of view of a particular user entity and, therefore, the scope of the work may mean that not all controls relevant to an individual user entity are tested by the service auditor.

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8794. In order to gain an understanding of the services provided by the service organisation, the service auditor may conduct procedures such as:

- Discussing aspects of the control framework and relevant controls with management and other personnel of the service organisation.
- Determining the predominant types of user entities and the nature of the services provided by the service organisation to those user entities.

~~88~~As part of planning the engagement, ASAE 3000 requires the service auditor to assess the appropriateness of the subject matter, which are the controls described in the Service Organisation's Controls Report. ASAE 3000 provides requirements and guidance on assessing the subject matter.

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Comment [CG35]: Covered by para.82

~~89~~Under ASAE 3000, the service auditor also assesses the suitability of the control objectives, being the criteria for the assurance engagement. In doing so the service auditor considers whether:

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(a) the control objectives include all of the control objectives from Appendix 2 Section B for the services covered by the engagement, and whether the reason for any omissions is acceptable; and

(b) additional control objectives specified by management, or those charged with governance, are suitable by determining if they meet the characteristics of relevance, completeness, reliability, neutrality and understandability, as required by ASAE 3000.

Comment [CG36]: Covered by para 82

Management Written Representations

95. The service auditor ~~may~~ is required under ASAE 3402⁶⁷ to request management the service organisation, or those charged with

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⁶⁷ See ASAE 3402 paragraph 38.

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~~governance, to provide written representations that it acknowledges and understands its responsibilities, and~~

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90 (a) ~~That reaffirm the assertion accompanying the description of the system~~

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(b) ~~That it has provided the service auditor with all relevant information and access agreed to; and~~

90 (c) ~~that it has disclosed to the service auditor any of the following of which it is aware, including:~~

- (i) ~~Non-compliance with laws and regulation, losses, fraud or uncorrected deviations errors attributable to the service organisation, or management or employees that may affect one or more user entities;~~
- (ii) ~~Design deficiencies in controls, including those for which management believes the cost of corrective action may exceed the benefits;~~
- (iii) ~~Instances where controls have not operated as described with sufficient effectiveness to achieve the specified control objectives and whether such matters have been communicated to user entities; and~~
- (iv) ~~Subsequent events which are likely to have a significant effect on user entities, the service auditor's assurance report.~~

91 ~~The service auditor may also request management, or, those charged with governance, to provide a written representation whether they believe that all records, documentation, unusual matters of which they are aware, and other information relevant to the assurance engagement have been made available to the service auditor.~~

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Guidance Statement GS 007 Audit Implications of the use of Service Organisations for Investment Management Services

96. Written representation ~~may be required~~⁶⁸ to be in the form of a representation letter addressed to the service auditor, ordinarily issued at the same date as the Service Organisation's ~~Controls Report description of its system and assertion or~~. ~~The service auditor considers the requirements and guidance in ASAE 3400 in using the representation of management.~~ ~~The date of the written representation is as near as practicable to, but not after the date of the service auditor's assurance report.~~

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Obtaining an Understanding of the Service Organisation's System

97. ASAE 3402⁶⁹ requires ~~the service auditor to obtain an understanding of the service organisation's system, including controls that are included in the scope of the engagement. In doing so, the service auditor identifies the boundaries of that system and ensures that the boundary of the investment management services included in the description of the system does not omit aspects of the services provided which are part of user entities' information system relevant to financial reporting. The description of each investment management services provided in this guidance statement is indicative and not definitive. The service organisation may provide multiple investment management services, in which case the service auditor identifies how the services interface.~~

Comment [CG37]: Check against comment letters – notes gaps in descriptions.

Accuracy of the Description of Controls Obtain Evidence Regarding the Description of the System

86,98. ~~The service auditor obtains and reads the service organisation's description of its system and evaluates whether those aspects of the description included in the scope of the engagement are fairly presented, in accordance with ASAE 3402,⁷⁰ including whether control objectives are reasonable, controls identified in that description were implemented, complementary user entity controls are adequately described and services performed by a sub-service organisation, if any, are adequately described. In doing so, the service auditor determines whether the description is likely to~~

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⁶⁸ See ASAE 3402, paragraph 39.

⁶⁹ See ASAE 3420, paragraph 20.

⁷⁰ See ASAE 3402, paragraph 21.

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provide sufficient information for user entities to obtain an understanding of those aspects of the service organisation’s controls that could reasonably be expected to be relevant to user entities’ internal controls as they relate to financial reporting.

9399. The service auditor is required⁷¹ to conduct enquiries and other’s procedures to assess the accuracy of the description whether of the service organisation’s controls system has been implemented, including may include:

- “Walk-through” tests of selected transactions and control procedures.

- Observing the procedures performed by the service organisation’s personnel, which may also include “walk-through” tests of selected transactions and control procedures..

- Reviewing-Inspecting the service organisation’s records and documentation, such as policy and procedure manuals, and other systems documentation, for example, flowcharts and narratives.

-

- Determining whether the description is likely to provide sufficient information for user entities to obtain an understanding of those aspects of the service organisation’s controls that could reasonably be expected to be relevant to user entities’ internal controls as they relate to financial reporting.

- Determining whether the relevant services of any sub-service organisations are adequately identified and differentiated from the service organisation’s controls and included in the Service Organisation’s Controls Report, if appropriate, as described in paragraph 83.

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Comment [C38]: Moved to previous paragraph.

⁷¹ See ASAE 3402, paragraph 22.

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94 The service auditor compares their understanding of the controls at the service organisation with management's, or those charged with governance's, representations made in the Service Organisation's Controls Report to determine the accuracy of the description. Accurately described controls do not omit or distort significant information that may affect user entities' assessments of control risk.

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Comment [CG39]: Covered by paragraph 100.

95 100. Accurately described controls also include a complete set of associated In assessing the reasonableness of the control objectives, the service auditor determines whether including the control objectives for the relevant investment management service/s contained in Appendix 2 Section B3 have been included or, for any objectives which have been excluded, the adequacy of the reasons why those objectives are not relevant. If there are any unjustified omissions or misstatements with regard to the control objectives, the service auditor asks management, or those charged with governance, to amend the description. If it is not amended, the service auditor considers the reasons, if known, for the omission or misstatement and the effect on the Service Auditor's Controls Type 1 or 2 Report.

Suitability of Design Obtaining Evidence Regarding Design of Controls

101. ASAE 3402⁷² requires The service auditor-s to determination of which of the controls at the service organisation are necessary to achieve the control objectives stated in the service organisation's description of its system and assesses whether those controls are suitably designed, by may include identifying the risks that threaten the achievement of the control objectives, and evaluating the linkage of controls identified in the service organisation's description of its system with those risks.

Comment [CHG40]: Align and anchor to ASAE 3402 para. 23

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96 A control is designed suitably if individually, or in combination with other controls, it is likely to prevent or detect fraud or errors that could result in the non-achievement of specified control objectives when the described controls are operating effectively.

⁷² See ASAE 3402, paragraph 23.

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97102. ~~The service auditor’s assessment of the suitability of the design of the controls includes consideration of the relevance of the controls to the associated control objectives and the ability of the controls to prevent or detect fraud or errors that could result in failure to achieve those control objectives.~~ The service auditor may use flowcharts, questionnaires, decision tables, documents and reports, as well as make enquiries of appropriate service organisation personnel and observation of the application of specific controls, to determine whether they are suitably designed to achieve the specified control objectives and if they are operated as prescribed, by appropriately qualified or experienced persons.

Implementation of Controls

98~~In determining whether the controls have been implemented, the service auditor conducts such tests as:~~

- ~~Enquiry of appropriate service organisation personnel.~~
- ~~Performance of “walk through” tests of controls.~~
- ~~Review of systems documentation.~~
- ~~Inspection of documents and reports.~~

Operating Effectiveness
Obtaining Evidence Regarding Operating Effectiveness of Controls

103. ~~When preparing providing a Type B-Controls² Report, the service auditor performs tests of the relevant controls that the service auditor has determined are necessary to obtain evidence about the to achieve the control objectives stated in the service organisation’s description of its system and assess their operating effectiveness of the controls throughout the specified reporting period in accordance with ASAE 3402.⁷³ Evidence obtained in prior engagements about the satisfactory operation of controls in prior periods does not provide a basis for a reduction in testing, even if it is supplemented with evidence obtained during the current period.~~

Comment [CHG41]: ASAE 3402 does not include implementation separately from description.

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Comment [CHG42]: Align and anchor to ASAE 3402 paras 24-29.

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⁷³ See ASAE 3402, paragraph 24.

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99104. The service auditor designs the nature, timing and extent of tests of operating effectiveness with the objective of determining whether and how a control procedure is applied, the consistency with which it is applied, by whom it is applied and how exceptions identified by operation of the control are addressed. If controls to be tested depend upon other controls (indirect controls), it may be necessary for the service auditor to obtain evidence supporting the operating effectiveness of those indirect controls. In selecting items for testing, the service auditor determined means which are effective in meeting the objectives of the procedure.

100105. Where the service auditor is unable to test a described control procedure because, for example, it has not operated during the year, the service auditor states the fact that no tests have been carried out and the reason in the description of tests attached to the Controls Report Type 2 Report and considers whether this will affect their assurance opinion.

Nature, Timing and Extent of Tests of Operating Effectiveness of Controls

101106. Tests of the operating effectiveness of controls, include:

- Enquiry of the appropriate personnel.
- Observation of the application of the control procedure.
- Inspection of relevant documentation evidencing operation of the control.
- Re-performance of the control procedure.

Enquiry alone does not generally provide sufficient evidence to support a conclusion about the operating effectiveness of a specific control procedure.

102107. The timing and extent of the service auditor's tests of controls varies with the characteristics of the population to be tested⁷⁵, which

Comment [C43]: Covered by para.106 above.

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⁷⁴ See ASAE 3402, paragraph 25.

⁷⁵ See ASAE 3402, paragraph 26.

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includes the nature of the controls being tested (for example, manual or automated), the frequency of the operation of those controls (for example, ~~quarterly~~, monthly, daily ~~or multiple~~ a number of times a day per day); and the expected rate of deviation, being the risk of failure of the control procedure that is being tested, is estimated in ~~and the service auditor's risk assessment (including the risk of failure of the control procedure that is being tested)~~. Tests of operating effectiveness provide evidence that enables the service auditor to report on the entire period covered by the Controls Type 2 Report. Certain controls may not have evidence of their operation that can be tested subsequently and accordingly, the service auditor may need to observe the operation of such controls at various times throughout the reporting period.⁷⁶

103.108. When the service organisation has implemented changes to the controls during the period, the service auditor evaluates whether the controls met the control objectives before and after the change and tests the operating effectiveness of the superseded controls as well as the replacement controls over the period covered by each control. The description of the service auditor's tests clearly states which controls have been tested.

Sampling

109. When the service auditor uses sampling, ASAE 3402⁷⁷ requires the service auditor to consider the purpose of the procedure and the characteristics of the population from which the sample will be drawn, and determines a sample size sufficient to reduce sampling risk to an appropriately low level. **In addition, items are required to be selected in such a way that each sampling unit in the population has a chance of selection, and if a designed procedure is not applicable to a selected item, procedures are performed on a replacement item. If the designed or alternative procedures cannot be applied, the selected item is required to be treated as a deviation**

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Nature and Cause of Deviations

⁷⁶ See ASAE 3402, paragraph A31.

⁷⁷ See ASAE 3402, paragraph 27.

The service auditor is required under ASAE 3402,⁷⁸ to investigate the nature and cause of any deviations identified and determines whether identified deviations are within the expected rate of deviation and are acceptable. Additional testing of the control or of other controls is necessary to reach a conclusion on whether or not the controls relative to a particular control objective are operating effectively throughout the specified period.

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111. In the extremely rare circumstances when the service auditor considers a deviation discovered in a sample to be an anomaly and no other controls have been identified that allow the service auditor to conclude that the relevant control objective is operating effectively throughout the specified period, the service auditor obtains a high degree of certainty that such deviation is not representative of the population. The service auditor obtains this degree of certainty by performing additional procedures to obtain sufficient appropriate evidence that the deviation does not affect the remainder of the population.

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The Work of an Internal Audit Function

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Obtaining an Understanding of the Internal Audit Function⁷⁹

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112. If the service organisation has an internal audit function, the service auditor is required to obtain an understanding of the nature of the responsibilities of the internal audit function and of the activities performed to determine whether the internal audit function is likely to be relevant to the engagement.

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Determining Whether and to What Extent to Use the Work of the Internal Auditors⁸⁰

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⁷⁸ See ASAE 3402, paragraph 28.

⁷⁹ See ASAE 3402, paragraph 29.

⁸⁰ See ASAE 3402, paragraph 30.

⁸¹ See ASAE 3402, paragraph 31-33.

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113. The service auditor determines whether the work of the internal auditors is likely to be adequate for purposes of the engagement and, if so, the planned effect of the work of the internal auditors on the nature, timing or extent of the service auditor's procedures.

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113. In determining whether the work of the internal auditors is likely to be adequate for purposes of the engagement, the service auditor evaluates the objectivity of the internal audit function, the technical competence of the internal auditors, whether the work of the internal auditors is likely to be carried out with due professional care and whether there is likely to be effective communication between the internal auditors and the service auditor.

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115. In determining the planned effect of the work of the internal auditors on the nature, timing or extent of the service auditor's procedures, the service auditor considers the nature and scope of specific work performed by internal auditors, the significance of that work to the service auditor's conclusions and the degree of subjectivity involved in the evaluation of the evidence gathered in support of those conclusions.

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*Using the Work of the Internal Audit Function*⁸²

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116. In order for the service auditor to use specific work of the internal auditors, the service auditor evaluates and performs procedures on that work to determine its adequacy for the service auditor's purposes. The service auditor evaluates whether the work was performed by internal auditors having adequate technical training and proficiency, the work was properly supervised, reviewed and documented, adequate evidence was obtained to enable the internal auditors to draw reasonable conclusions, conclusions reached are appropriate in the circumstance and exceptions relevant to the

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⁸² See ASAE 3402, paragraph 34-35.

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engagement or unusual matters disclosed by the internal auditors are properly resolved.

*Effect on the Service Auditor's Assurance Report*⁸³

117. If the work of the internal audit function has been used, the service auditor makes no reference to that work in the section of the service auditor's assurance report that contains the service auditor's opinion.

97. 118. In the case of a type 2 report, if the work of the internal audit function has been used in performing tests of controls, that part of the service auditor's assurance report that describes the service auditor's tests of controls and the results thereof includes a description of the internal auditor's work and of the service auditor's procedures with respect to that work.

Other Information

98. 119. The service auditor reads any other information included in a document containing the service organisation's description of its system and the service auditor's report to identify material inconsistencies, if any, with that description. In addition, while reading the other information, the service auditor may become aware of an apparent misstatement of fact. ASAE 3402⁸⁴ requires the service auditor to take further appropriate action if, following discussion of the matter with the service organisation, the service organisation refuses to correct a material inconsistency or misstatement of fact.

Subsequent Events

108. 120. The service auditor is required under ASAE 3402⁸⁵ to enquire as to whether the service organisation is aware of any events performed subsequent to the period covered by the service organisation's Controls description of the investment management services system Report and up to the date of the Service Auditor's

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⁸³ See ASAE 3402, paragraph 36-37.

⁸⁴ See ASAE 3402, paragraph 41-42.

⁸⁵ See ASAE 3402, paragraph 43.

Controls-Type 2 Report that may have an impact on that report's opinion about the effectiveness of controls over investment management services are identified. These procedures may be limited to review of relevant reports; review of minutes of relevant committees and enquiry of management and other personnel. If (The service auditor considers the impact of any subsequent events subsequent event identified in the period covered by the service organisation's description of its system up to the date of the service auditor discloses in the assurance report that could have a significant effect on the report and modifies the Service Auditor's Controls Report if appropriate he becomes aware of such an event and information about that event that is not disclosed by the service organisation.

109 The service auditor does not have any obligation to perform any procedures regarding the description of the system, control objectives and related controls, or the suitability of design or operating effectiveness of controls after the date of the Service Auditor's Controls Report⁸⁶.

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121. The service auditor reads any other information included in a document containing the Service Organisation's Controls Report to identify material inconsistencies with the Service Auditor's assurance Controls Report.

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Documentation

104 122. In preparing sufficient, appropriate and timely documentation under ASAE 3000⁸⁷, the service auditor^s prepares documentation that is sufficient to enable an experienced assurance practitioner^s service auditor, having no previous experience connection with the assurance engagement, to understand:

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(a) the nature, timing and extent of the procedures performed;

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(b) the result of the procedures and the evidence obtained; and

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⁸⁶ See ASAE 3402, paragraph 44.

⁸⁷ See ASAE 3402, paragraph 45.

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- (c) significant matters arising during the engagement and the conclusions reached thereon.
- 105 123. In documenting the nature, timing and extent of assurance procedures performed, under ASAE 3402,⁸⁸ the service auditor records:
- (a) the identifying characteristics of the specific items or matters being tested;
- (b) who performed the procedures and the date such procedures were completed; and
- (c) who reviewed the work performed and the date and extent of such review.
- 103 124. If the service auditor uses specific work of the internal auditors, the service auditor is required⁸⁹ to document the conclusions reached regarding the evaluation of the adequacy of the work of the internal auditors, and the procedures performed by the service auditor on that work.
- 106 125. The service auditor documents discussions of significant and relevant matters with the service organisation's representatives and other parties on a timely basis including the nature of the significant matters discussed and when and with whom the discussions took place.⁹⁰
- 107 126. If the service auditor has identified information that contradicts or is inconsistent with the service auditor's final opinion regarding a significant matter, ASAE 3402⁹¹ requires the service auditor to document how the service auditor addressed the contradiction or inconsistency in forming the final opinion.

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⁸⁸ See ASAE 3402, paragraph 46.

⁸⁹ See ASAE 3402, paragraph 47.

⁹⁰ See ASAE 3402, paragraph 48.

⁹¹ See ASAE 3402, paragraph 49.

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127. The service auditor is required to assemble the documentation in an engagement file, and complete the administrative process of assembling the final engagement file on a timely basis after the date of the service auditor's assurance report, and to retain that documentation for its retention period.^{92,93} If the service auditor needs to modify or add documentation after the assembly of the final engagement file, ASAE 3402⁹⁴ requires the service auditor to document the reasons for making the modifications and when and by whom they were made and reviewed.

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Subsequent Events

108 The service auditor performs procedures designed to provide sufficient appropriate evidence that all matters subsequent to the period covered by the Service Organisation's Controls Report and up to the date of the Service Auditor's Controls Report that may have an impact on the opinion about the effectiveness of controls over investment management services are identified. These procedures may be limited to review of relevant reports, review of minutes of relevant committees and enquiry of management and other personnel. The service auditor considers the impact of any subsequent event identified and modifies the Service Auditor's Controls Report if appropriate.

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109 The service auditor does not have any obligation to perform any procedures regarding the description of the system, control objectives and related controls, or the suitability of design or operating effectiveness of controls after the date of the Service Auditor's Controls Report.

110 The service auditor reads any other information included in a document containing the Service Organisation's Controls Report to identify material inconsistencies with the Service Auditor's Controls Report.

The Service Auditor's Assurance Report on Controls

⁹² See ASAE 3402, paragraph 50.

⁹³ See ASAE 3402, paragraph 51.

⁹⁴ See ASAE 3402, paragraph 52.

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~~111~~128. The service auditor's opinion is expressed in a written assurance report on controls attached to the ~~Service Organisation's~~ description of its system and assertion ~~Controls Report.~~

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112 ~~129~~. The Service Auditor's ~~Controls-Type 1 or 2 Report~~, includes the following basic elements of an assurance report as required by ~~in~~ accordance with ASAE 3000~~3402~~⁹⁵, and, in addition, includes the following matters:

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Comment [CHG46]: Is it necessary to repeat ASAE 3402 para.53 included here?

(a) a title that clearly indicates the report is an independent service auditor's assurance report.

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(b) an addressee.

(c) identification of

(i) the service organisations' description of its system and assertion.⁹⁶

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(ii) those parts of the description which are not covered by the service auditor's opinion.

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(iii) if the description refers to the need for complementary user entity controls, a statement that the service auditor has not evaluated the suitability of design or operating effectiveness of complementary user entity controls, and that the control objectives stated in the service organisation's description of its system can be achieved only if complementary user entity controls are suitably designed or operating effectively, along with the controls at the service organisation.

(iv) if services are performed by a subservice organisation, the nature of activities performed by the subservice organisation as described in the

⁹⁵ See ASAE 3402, paragraph 53.

⁹⁶ See paragraph 5.

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service organisation's description of its system and whether the inclusive method or the carve-out method has been used in relation to them. Where the carve-out method has been used, a statement that the service organisation's description of its system excludes the control objectives and related controls at relevant subservice organisations, and that the service auditor's procedures do not extend to controls at the subservice organisation. Where the inclusive method has been used, a statement that the service organisation's description of its system includes control objectives and related controls at the subservice organisation, and that the service auditor's procedures extended to controls at the subservice organisation.

(a) identification of the criteria, including the minimum control objectives provided in this guidance statement for the relevant investment management services;

(e) A statement that the report and, in the case of a type 2 report, the description of tests of controls are intended only for user entities and their auditors, who have a sufficient understanding to consider it, along with other information including information about controls operated by user entities themselves, when assessing the risks of material misstatements of user entities' financial reports/statements.

(f) A statement that the service organisation is responsible for:

(i) Preparing the description of its system, and the accompanying assertion, including the completeness, accuracy and method of presentation of that description and that assertion;

(ii) Providing the investment management services covered by the service organisation's description of its system.

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- (iii) Stating the control objectives, including those for the relevant investment management services from this guidance statement, and if any minimum control objectives are omitted or modified providing an explanation of that omission or modification; and
- (iv) Designing and implementing controls to achieve the control objectives stated in the service organisation's description of its system
- (g) A statement that the service auditor's responsibility is to express an opinion on the service organisation's description, on the design of controls related to the control objectives stated in that description and, in the case of a type 2 report, on the operating effectiveness of those controls, based on the service auditor's procedures.
- (h) A statement that the engagement was performed in accordance with ASAE 3402 *Assurance Reports on Controls at a Service Organisation*, which requires that the service auditor comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether, in all material respects, the service organisation's description of its system is fairly presented and the controls are suitably designed and, in the case of a type 2 report, are operating effectively.
- (i) A summary of the service auditor's procedures to obtain reasonable assurance and a statement of the service auditor's belief that the evidence obtained is sufficient and appropriate to provide a basis for the service auditor's opinion, and, in the case of a type 1 report, a statement that the service auditor has not performed any procedures regarding the operating effectiveness of controls and therefore no opinion is expressed thereon.
- (j) A statement of the limitations of controls and, in the case of a type 2 report, of the risk of projecting to future periods any evaluation of the operating effectiveness of controls.

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k) The service auditor's opinion, expressed in the positive form, on whether, in all material respects, based on suitable criteria:

(i) In the case of a type 2 report:

a. The description fairly presents the service organisation's system that had been designed and implemented throughout the specified period.

b. The controls related to the control objectives stated in the service organisation's description of its system were suitably designed throughout the specified period, and

c. The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the specified period.

(ii) In the case of a type 1 report:

a. The description fairly presents the service organisation's system that had been designed and implemented as at the specified date; and

b. The controls related to the control objectives stated in the service organisation's description of its system were suitably designed as at the specified date.

l) The date of the service auditor's assurance report, which is no earlier than the date on which the service auditor has obtained sufficient appropriate evidence on which to base the opinion.

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(m) ~~The name of the service auditor and location in the jurisdiction where the service auditor practices; and.~~

An example of a service organisation's description of its system and assertion is shown at Appendix 2 Section A3.

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~~In the case of a type 2 report, the service auditor's assurance report includes a separate section after the opinion, or an attachment, that describes the tests of controls that were performed and the results of those tests. In describing the tests of controls, the service auditor clearly states which controls were tested, identifies whether the items tested represent all or a selection of the items in the population, and indicates the nature of the tests in sufficient detail to enable user auditors to determine the effect of such tests on their risk assessments. If deviations have been identified, the service auditor includes the extent of testing performed that led to identification of the deviations, and the number and nature of the deviations noted. The service auditor reports deviations even if, on the basis of tests performed, the service auditor has concluded that the related control objective was achieved.~~

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(a) an identification of:

- i. the investment management services conducted by the service organisation covered by the description;
- ii. the Service Organisation's Controls Report on controls at the service organisation over investment management services provided to user entities;
- iii. any parts of the service organisation's description which are not covered by the service auditor's opinion, such as any description of the service organisation's control environment, risk assessment, monitoring and information and communication processes; and
- iv. the period of time to which the description relates;

(b) identification of management, or, where appropriate, those charged with governance, of the service organisation's responsibilities for:

Guidance Statement GS 007 *Audit Implications of the use of Service Organisations for Investment Management Services*

- i. providing the specified investment management services;
 - ii. identifying control objectives relevant to the financial reporting of user entities to whom the investment management services are provided;
 - iii. the design, implementation and operation of the controls at the service organisation to provide reasonable assurance that the control objectives are achieved; and
 - iv. the description of the control objectives and allied controls and the assertions about the controls in their report;
- (c) identification of the service auditor's responsibilities;
- (d) a statement that the engagement was performed in accordance with Standards on Assurance Engagements to obtain reasonable assurance so as to form an assurance opinion;
- (e) identification of user entities and their auditors as intended users of the report and the conditions of use;
- (f) a statement that:
- i. the operating effectiveness of controls at the service organisation is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected; and
 - ii. the historic evaluation of the operating effectiveness of controls is not relevant to future periods due to the risk that they may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate;
- (g) if complementary user entity controls are identified in the Service Organisation's Controls Report, the fact that the service auditor has not evaluated the operating effectiveness of complementary user entity controls, and that if complementary user entity controls are not operating

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effectively, the service organisation's controls may not achieve the specified objectives;

- (h) if sub-service organisations are used by the service organisation, whether the description of control objectives, related controls, tests applied to those controls and the results of those tests includes the control objectives and related controls of relevant sub-service organisations;
- (i) the service auditor's opinion, expressed in the positive form, on whether:
 - i. the Service Organisation's Controls Report describes accurately the controls of the service organisation over the investment management services specified which were in place throughout the period;
 - ii. the controls are suitably designed to achieve the specified control objectives (and if appropriate: the user entity applied any complementary controls identified);
 - iii. the controls were implemented; and
 - iv. the controls were operating effectively throughout the specified period.

An example of a service auditor's Type B Controls Report is shown at Appendix 2 Section C.

(b)130. :

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108-131. Management, or those charged with governance, is responsible for the completeness, accuracy, validity and method of presentation of the description of control objectives and controls. The description of controls includes controls that may be relevant to user entities. The service auditor may assist the service organisation in preparing the description; however, the representations in the description are the responsibility of management, or those charged with governance, of the service organisation.

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~~109.~~ The description of control objectives and controls does not necessarily address every service provided by the service organisation. The description presents a level of detail that may provide sufficient information for the user auditor to assess the risk of material misstatement and to design further audit procedures in response to the assessed risk and, in the case of Type 2 Reports, to assess the operating effectiveness of the controls as if a service organisation were not used. However, the description of controls need not be so detailed as to enable compromise of security or other controls.

Comment [C47]: Now included in system description.

An example of a service auditor's Type 2 Report is shown at Appendix 2 Section C.

Describing Tests of Operating Effectiveness

~~113~~132. The Service Auditor's ~~Controls Type 2~~ Report includes a separate attachment that describes the service auditor's tests of controls and the results thereof. An explanation of the service auditor's description of the nature, timing and extent of tests applied to controls is in Appendix ~~2 Section D4~~.

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~~114~~133. The service auditor uses the control objectives identified by the service organisation and the service organisation's description of the controls intended to achieve those objectives as a reference for describing the nature, timing and extent of tests carried out and the results of the tests in the attachment to the Service Auditor's ~~Controls Type 2~~ Report, although it is not necessary to list the controls and related control objectives in both the service organisation's ~~description of its system Controls Report~~ and in the Service Auditor's ~~Controls Type 2~~ Report. The service auditor describes tests of operating effectiveness that provide sufficient information to support the service auditor's opinion as to whether the controls were operating effectively throughout the period or alternatively, the service auditor's opinion that the results constitute ~~an exception~~ a significant deficiency.

~~115~~134. The service auditor's description of the nature of tests performed may include enquiry, inspection, observation or re-performance of the described controls. The description of the extent of tests

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performed identifies whether the items tested represent a sample or all of the items in the population.

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Reporting ~~Exceptions~~ Deviations

~~116~~135. ASAE 3402 requires the service auditor to report deviations even if, on the basis of tests performed, the service auditor has concluded that the related control objective was achieved. ~~Exceptions~~ Deviations in the service organisation's controls identified by the service auditor may include:

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- Control objectives that are incomplete or inappropriate as compared to the control objectives in this Guidance Statement for the relevant services.
- The description of controls is inaccurate or omits changes in controls (although this does not necessarily affect the suitability of design or operating effectiveness of the controls).
- Controls associated with stated control objectives are incomplete or inappropriate.
- A set of controls is not suitably designed to achieve a specified control objective.
- Certain controls are not operating effectively.

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~~117~~136. If ~~exceptions~~ deviations have been identified, the service auditor may include, in the attachment to their report on tests of controls:

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- Information about causative factors, to the extent the service auditor has identified such factors.
- The current status of corrective actions, to the extent the service auditor has determined their status.

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~~118~~The service auditor discusses with management, and, where appropriate, those charged with governance, any material exceptions noted, so that management, or those charged with governance, may amend the Service Organisation's Controls Report accordingly. If management, or those charged with governance, refuse or fail to do so the service auditor modifies their report.

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Comment [C48]: Amending the report may not eliminate the deviation and so need for modification.

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119 Also, the service auditor may become aware of relevant matters of governance interest in the course of the conduct of a controls engagement, in which case the service auditor is required to consider communicating such matters to those charged with governance in accordance with ASAE 3000.

Modified Opinions

120 **137.** If the service auditor concludes that:

- (a) management's, or those charged with governance's, the service organisation's description of controls and control objectives are not/does not accurately described/fairly present, in all material respects, the system as designed and implemented;
- (b) the controls related to the control objectives stated in the description are not suitably designed, in all material respects, to achieve the specified control objectives;
- (c) in the case of a type 2 report, the controls tested did not operate effectively, in all material respects, or were not implemented; or
- (d) the service auditor is unable to obtain sufficient appropriate evidence;

(d) then the controls did not operate effectively throughout the specified period;

in all material respects, the service auditor modifies their opinion in accordance with ASAE 3402, and includes a clear description of all the reasons for the modification in their report.

121 **138.** Refusal by management, or those charged with governance, of the service organisation to provide the written representations considered necessary as described in paragraphs 90-95 to 98~~2~~ may

Comment [CHG49]: Aligned with ASAE 3402 para.55

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⁹⁷ See ASAE 3402, paragraph 55.

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constitute a limitation on the scope of the engagement and service auditor considers the implications in forming the assurance opinion.

Other Communication Responsibilities

~~119.~~ If the service auditor becomes aware of non-compliance with laws and regulations, fraud or uncorrected errors attributable to the service organisation that are not clearly trivial and may affect one or more user entities, the service auditor determines whether the matter has been communicated appropriately to affected user entities. If the matter has not been so communicated and the service organisation is unwilling to do so, the service auditor takes appropriate action.

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Using the Work of Others

Comment [CHG50]: Align with ASAE 3402 para Aus 29.1-37

~~122~~140. When using the work of an expert, the service auditor complies with the requirements and refers to the guidance in ASAE 3000.

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~~123~~The service auditor may be able to use the work of internal audit to alter the nature, timing or reduce the extent of procedures conducted by the service auditor, but cannot eliminate those procedures entirely. If the service auditor intends to use the work of internal audit, the service auditor evaluates and performs procedures on that work to confirm its adequacy for the service auditor's purposes.

~~124~~141. Whilst the service auditor does not make reference to the work of others in the assurance opinion, the service auditor refers to any work conducted by internal audit or an expert in performing tests of controls in the description of tests of controls and results thereof.

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Special Purpose Service Auditor Engagements to report on financial information

~~125~~142. If the service auditor is engaged to provide a **Special Purpose Service Auditor's Report on financial information**, the service auditor issues a separate auditor's report in respect of each user entity concerning only that user entity's balances and/or transactions.

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~~126~~143. In performing ~~A~~an engagement to report on specified assertions or on a Statement ~~is a special purpose audit engagement, consequently~~ the service auditor ~~complies with~~applies the Auditing Standards (ASAs) ~~and in conducting reports on~~ the engagement ~~and reports~~ under ASA 805~~9~~.

~~127~~144. If the service auditor has prepared a Type 2 Report it provides the service auditor with assurance as to the reliability of controls over the investment management services which relate to the user entity's balances and/or transactions. Accordingly the service auditor may be able to reduce the extent of substantive testing that might otherwise be necessary in preparing a Special Purpose Service Auditor's Report on financial information.

Acceptance and Continuance of an Special Purpose Audit Engagement

~~145.~~ Before accepting the engagement, the service auditor is required under ASA 210⁹⁸ to determine the acceptability of the financial reporting framework, which in the case of a single financial statement or element, includes determining whether application of the financial reporting framework will result in a presentation that provides adequate disclosures to enable the intended users to understand the information conveyed and the effect of material transactions and events on the information conveyed.⁹⁹

~~128~~146. The service auditor also complies with Auditing Standard ASA 210 ~~Terms of Audit Engagements~~ in agreeing the terms of engagement.¹⁰⁰ - In addition to the matters specified in ASA 210, the engagement letter or other written agreement between the service auditor and the service organisation may include:

- The service auditor's responsibility to conduct the engagement with reference to this Guidance Statement.

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⁹⁸ See ASA 210 *Agreeing the Terms of Audit Engagements*, paragraph 6(a).

⁹⁹ See ASA 805, paragraph 8.

¹⁰⁰ See ASA 210, paragraphs 9 & 10.

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- The service auditor’s responsibility to report, in an attachment to the Special Purpose Service Auditor’s Report, uncorrected misstatements which have been aggregated during the audit but that were determined by management to be immaterial, both individually and in aggregate, to the Statement taken as a whole, other than amounts which are clearly trivial.
- Reference to the quantitative performance materiality level provided by the user auditor, if applicable.

Comment [CG51]: More consistent with ASA 450 paras 12 & 13.

Comment [CG52]: Per ASA 320 para 11.

Example engagement letters for engagements to report on specified assertions and on a Statement are included in Appendix 1 Sections B and C Examples 2 and 3 respectively.

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Independence

Ethical Requirements

129147. In accordance with Auditing Standard ASA 200 Objective and General Principles Governing an Audit of a Financial Report, the service auditor is required to comply with relevant ethical requirements, including those pertaining to independence, when performing an audit of a Statement or specified assertions. Relevant ethical requirements are defined in ASA 102.¹⁰¹ relating to audit engagements in conducting a special purpose audit engagement, which includes the applicable code of conduct of a professional accounting body.¹⁰²

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¹⁰¹ See ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*.

¹⁰² See ASA 102 *Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements*. In Australia, the applicable code of conduct of the professional accounting bodies is APES 110 *Code of Ethics for Professional Accountants*, as issued from time to time by the Accounting Professional Ethics Standards Board. This code of conduct has been adopted by CPA Australia Ltd., National Institute of Accountants and The Institute of Chartered Accountants in Australia.

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~~130148.~~ The service auditor considers the ~~relevant fundamental ethical~~ principles ~~of professional ethics,~~ relating to the engagement to be undertaken, which include ~~the fundamental ethical principles of:~~¹⁰³

- (a) integrity;
- (b) objectivity;
- (c) professional competence and due care;
- (d) confidentiality; and
- (e) professional behaviour.

~~131149.~~ ~~The applicable code of professional conduct states that the concept of independence is fundamental to compliance with the principles of integrity and objectivity.~~¹⁰⁴ — Where the service auditor is undertaking ~~an special purpose audit engagement of a Statement or specified assertion~~ particular consideration needs to be given to any threats to independence with respect to the user entity since the service auditor is reporting on financial information of the user entity. Threats to independence with respect to the user entity may be present, such as self-interest or familiarity threats, notwithstanding that the user entity may not be an assurance ~~client~~customer of the service auditor.

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~~132150.~~ In evaluating threats to independence and considering applicable safeguards, the service auditor considers the nature of the engagement. It may be sufficient, for example in the case of a restricted use report, to apply independence requirements in evaluating the independence of the engagement team members and their immediate and close family with respect to the user entity, along with limited consideration of the firm's interests and relationships with the user entity.

~~133151.~~ Examples of safeguards that may be considered appropriate by service auditors to manage identified threats to independence include:

¹⁰³ See ASA 102, paragraph A3.

¹⁰⁴ — APES 110 Code of Ethics for Professional Accountants, Section 290.

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- Prohibiting the holding of direct, or material indirect, financial interests in the user entity or its affiliates by members of the service auditor's engagement team and their immediate and close family.
- Removal from the service auditor's engagement team of any personnel with a close relationship with directors, officers or employees of the user entity or its affiliates.

Special Purpose Service Auditor's Reports on Financial Information

~~134~~152. ~~Special Purpose~~ Service Auditor's Reports on Specified Assertions or on a Statement, need to comply with the requirements in ~~ASA 800~~805 and as such include the basic elements of an ~~Special Purpose Service~~ Auditor's Report as set out in that standard. In addition to these elements, the service auditor includes:

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Comment [CHG53]: And ASA 805 as appropriate

- (a) identification of the specific assertions audited (if report is limited to specific assertions);
- (b) identification of the investment management services provided by the service organisation to the user entity;
- (c) a description of the responsible party's (management, or those charged with governance, of the service organisation) responsibilities for the investment management services provided to the user entity;
- (d) reference to the contract or service level agreement between the service organisation and the user entity for the investment management services provided; and
- (e) reference to the use of the report by the user entity and the user auditor.

Examples of a Service Auditor's Report on Specified Assertions is provided in Appendix ~~3-Section A6~~ Example 1 and a Service Auditor's Report on a Statement is provided in Appendix ~~3-Section B6~~ Example 2 of this Guidance Statement.

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Information Excluded from the ~~Special Purpose~~ Service Auditor's Report

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~~135~~153. When performing a ~~special purpose~~ audit engagement at a service organisation, the service auditor may restrict the audit procedures to information that is held by the service organisation on behalf of the user entity. The Statement, however, may include information which is provided by the fiduciary of the user entity or by another party to the service organisation for inclusion in the Statement. Documentation or other audit evidence may not be available at the service organisation to substantiate that information. Where certain information within the Statement has not been audited, the service auditor identifies that information and specifically excludes it from the scope of the audit opinion.

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Reporting of Matters of Governance Interest Arising in an Special Purpose Audit Engagement on Financial Information

~~136~~154. In the course of performing procedures for an ~~special purpose~~ audit engagement at a service organisation, the service auditor ~~may become aware of any ofis required to communicate any of~~ the following matters ~~identified to those charged with governance on a timely basis~~:

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- (a) ~~significant deficiencies~~ ¹⁰⁵~~material weaknesses~~ in internal control¹⁰⁶;
- (b) ~~significant findings from the audit~~¹⁰⁷ ~~audit matters of governance interest~~¹⁰⁸;
- (c) ~~uncorrected misstatements and the effect they, individually or in aggregate, may have on the opinion in the auditor's report~~¹⁰⁹~~, aggregated by the service auditor during the audit that were determined by management to be~~¹¹⁰

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¹⁰⁵ See ASA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*, paragraph 9.

¹⁰⁶ ASA 315 provides requirements and guidance on material weaknesses in control.

¹⁰⁷ See ASA 260 *Communication with Those Charged with Governance*, paragraph 16.

¹⁰⁸ ASA 260 provides requirements and guidance on audit matters of governance interest.

¹⁰⁹ See ASA 450 *Evaluation of Misstatements Identified during the Audit* paragraph 12.

¹¹⁰ ASA 260 provides requirements and guidance on uncorrected misstatements.

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~~immaterial, both individually and in aggregate, to the Statement taken as a whole; or and~~

- (d) ~~fraud, identified or suspected involving management, employees who have significant roles in internal control or others where the fraud results in a material misstatement, as well as any other matters related to fraud that are relevant to their responsibilities,¹¹¹ or information that indicates that a fraud may exist.¹¹²~~

~~138155. The service auditor communicates any of the matters of governance interest referred to in paragraph 136 which have come to the service auditor's attention to those charged with governance of the service organisation as required by ASA 260. In addition, the service auditor states in their report *Special Purpose Service Auditor's Report* whether they have identified any uncorrected misstatements in the course of the audit, other than amounts which are clearly trivial, and, if so, details the uncorrected misstatements in an attachment to their report. An outline for an attachment on uncorrected misstatements is shown at Appendix 3 ~~Section C6, Example 2.~~~~

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~~139156. If the service auditor considers that any of the matters reported to those charged with governance of the service organisation may affect one or more user entity, the service auditor determines from the appropriate level of management whether this information has been communicated to the affected user entity or entities. If the matter is not communicated satisfactorily, the service auditor may consider whether it affects the service auditor's ability to conduct the engagement or necessitates a modification to the service auditor's report.~~

Materiality to be Applied by the Service Auditor

Controls Engagements

¹¹¹ See ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*, paragraph 41 and 42.

¹¹² ASA 240 provides requirements and guidance on fraud.

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~~140~~157. In applying the requirements of ASAE ~~3000-3402~~¹¹³ when conducting an assurance engagement to report on controls, the service auditor ~~determines~~ considers materiality with respect to the fair presentation of the description, the suitability of the design of controls and, in the case of a Type 2 report, the operating effectiveness of controls. ~~in the context of whether the controls will reduce to an acceptably low level the risks that threaten achievement of the control objectives.~~ The concept of materiality relates to the system being reported on, not to the financial reports of user entities. The concept of materiality is not applied when disclosing, in the description of the tests of controls, the results of those tests where deviations have been identified.¹¹⁴

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~~136-158.~~ Material weaknesses ~~Significant deficiencies~~ in internal control relating to audits of financial reports are required to be reported to those charged with governance, ~~or the appropriate level of management,~~ by the user auditor as noted in paragraph 59.

~~144~~159. The service auditor is not in a position to identify significant deficiencies ~~material weaknesses~~ with respect to each user entity because the service auditor may not be aware of the conditions existing at user entities. The service auditor is required only to consider conditions that come to the service auditor's attention that preclude the service auditor from obtaining reasonable assurance that specified controls objectives would be achieved if the controls were operated as described. The service auditor reports ~~exceptions~~ deviations in the design or operation of controls that cause the non-achievement of specified control objectives. It is then the user auditor's responsibility to consider the effect of those ~~exceptions~~ deviations on the user auditor's risk assessment and whether the ~~exceptions~~ deviations noted represent ~~material weaknesses~~ significant deficiencies in controls with respect to the user entity.

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Special Purpose Audit Engagements of Financial Information

¹¹³ ASAE 3402, paragraph 19.

¹¹⁴ See ASAE 3402, paragraphs A16-A18 for further guidance on materiality.

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~~142~~160. When conducting an audit of specified assertions or a Statement, the service auditor considers materiality under ASA 320 in determining the nature, timing and extent of audit procedures and evaluating the effect of misstatements. ~~ASA 320 states that the auditor's preliminary assessment of materiality is based largely on quantitative factors. Materiality is also influenced by qualitative factors, although these are more relevant to the assessment of misstatements identified by the audit procedures conducted.~~ The relevant benchmark, for investment management services, on which the service auditor bases ~~the quantitative evaluation of~~ materiality, under ASA 320, in most cases -is either:

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- (a) the assets of the user entity for which specific assertions are being audited;
- (b) total assets of the user entity reported in the Statement; or
- (c) net assets, where assets and liabilities are reported, of the user entity reported in the Statement.

~~143~~The service auditor ~~often~~ applies a percentage to the benchmark as a starting point in determining materiality under ASA 320.¹¹⁵ In the absence of a materiality specified by the user auditor, the service auditor may apply a percentage of 0.5% to any of the benchmarks listed in paragraph 142 as a reasonable basis for determining ~~performance~~quantitative materiality for auditing specified assertions or a Statement, where investment management services are provided. Where an alternative benchmark is used, this percentage may not be appropriate for determining materiality.

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~~143~~

~~144~~If the user auditor requests that an alternative benchmark or percentage be used as a basis for determination of ~~quantitative-performance~~ materiality to be applied by the service auditor, then this is communicated by the user entity to the service organisation and agreed between the service organisation and the service auditor.

¹¹⁵ See ASA 320, paragraph A3.

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Conformity with International Pronouncements

| ~~142-162.~~ There is no equivalent International Standard on Auditing or International Practice Statement to this Guidance Statement.

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Appendix 1, Section B

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ENGAGEMENT LETTERS

The following example engagement letters are is not authoritative but is intended only to be for use as a guide that may be used only, in conjunction with the considerations described-outlined in GS 007, ~~and~~ it will need to be varied according to individual requirements and circumstances. It is drafted to refer to an engagement for a single reporting period and would require adaptation if intended or expected to apply to recurring.¹¹⁶ It may be appropriate to seek legal advice that any proposed letter is suitable.

Section A Example 1: Example Engagement Letter for a Type 2 n Assurance Engagement to Report on a Service Organisation's Controls

Comment [CG54]: Aligned with ASAE 3402 Appendix 0A.

To [the appropriate representative of management or those charged with governance] of {XYZ sService oOrganisation}:

~~[HD6]~~ The objective and scope of the assurance engagement]

You have requested that we report on the description of XYZ Service Organisation's controls over [specify investment management services provided: custody; asset management, property management, superannuation member administration, investment administration or registry] services system and management's assertion with respect to that description, which you will provide and which will accompany our report. The description of XYZ Service Organisation's [investment management services] system comprises control objectives and related controls designed to achieve those objectives [insert for Type A Controls Reports: as at/for Type B Controls Reports: for the period ended] [date] described in your report on controls ("the [service organisation] report"), and subsequent periods unless terminated, amended or superseded. The criteria which we will use in

¹¹⁶ See ASA 210, paragraph 13.

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~~conducting our engagement will be the control objectives over [specify investment management services: custody; asset management, property management, superannuation member administration, investment administration or registry] services which you will provide in the [service organisation] Report. The control objectives included are the objectives for [investment management services] specified in Guidance Statement GS 007¹¹⁷ and any additional objectives which are likely to be relevant to internal control as it relates to financial reporting of customers who have used the [investment management services] system.~~

We are pleased to confirm our acceptance and understanding of this engagement by means of this letter. Our engagement will be conducted with the objective of our expressing an opinion on ~~your assertions on the fair presentation of the [investment management services] system, suitability of the design of the controls to achieve the control objectives throughout the period and the operating effectiveness of the controls necessary to provide reasonable assurance that the control objectives were achieved throughout the period. [design and implementation/design, implementation and operating effectiveness] of the controls over [investment management services].~~

~~[HD6]~~[The responsibilities of the auditor]

We will conduct our assurance engagement in accordance with Standards on Assurance Engagements ASAE 3402 Assurance Reports on Controls at a Service Organisation and with reference to Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services (GS-007)*, issued by the Auditing and Assurance Standards Board. ~~That~~ Standard s on Assurance Engagements requires that we comply with ~~the relevant~~ ethical requirements relating to assurance engagements and plan and perform ~~the engagement~~procedures to obtain reasonable assurance ~~that about whether, in all material respects, XYZ Service Organisation's description of the controls over [investment management services] system is fairly presented, the controls are are accurately described, suitably designed, implemented [insert for Type A Controls Reports: as at period end; or for Type B Controls Reports: and operated effectively throughout the reporting period].~~

¹¹⁷ See GS 007 Appendix 2 Section B.

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An assurance engagement involves performing procedures to obtain evidence about the description, design and operating effectiveness of controls. The procedures selected depend on the assurance practitioner's judgement, including the assessment of the risks of significant deficiencies in the [investment management services] system. The control objectives addressed, allied controls and procedures conducted to test those controls will be set out in an appendix to our report.

Because of the inherent limitations of an assurance engagement, together with the inherent limitations of any internal control system there is an unavoidable risk that some significant deficiencies may not be detected, even though the engagement is properly planned and performed in accordance with Standards on Assurance Engagements.

The system, within which the controls that we will test operate, will not be examined except to the extent the system is likely to be relevant to customers, as it relates to financial reporting. Hence no opinion will be expressed as to the effectiveness of the internal control system as a whole.

The work undertaken by us to form an opinion. We will undertake such enquiries of management, together with tests of control procedures, [for Type B Controls Reports insert: which will be set out in an appendix to our report], is permeated by judgement, in particular regarding the nature, timing and extent of assurance procedures for gathering evidence and the drawing of conclusions based on the evidence gathered. In addition to the inherent limitations in any assurance engagement, which include the use of testing, inherent limitations of any internal control structure, and the possibility of collusion, most evidence is persuasive rather than conclusive. As a result, an assurance engagement can only provide reasonable – not absolute – assurance that the description is fairly presented, controls are suitably designed and controls have operated effectively throughout the period, as we consider necessary to form an opinion whether, in all material respects: the [service organisation] Report describes accurately the controls over [investment management services], which were in place [for Type A Controls Reports insert: as at period end; or for Type B Controls Reports insert: throughout the reporting period]; the controls described are suitably designed to achieve the specified control objectives;

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~~the controls were implemented; and~~

~~{for Type B Controls Reports insert: the controls described were operating effectively throughout the period.}~~

~~The responsibilities of {Management/Those Charged with Governance} and identification of the applicable control framework~~

~~Our assurance engagement will be conducted on the basis that [management or, where appropriate, those charged with governance] acknowledge and understand that they have responsibility:~~

- ~~(a) For the preparation of a written assertion that, in all material respects, and based on suitable criteria:
 - ~~(i) the description fairly presents the XYZ Service Organisation's [investment management services] system designed and implemented throughout the period;~~
 - ~~(ii) The controls related to the control objectives stated in XYZ Service Organisation's description of its system were suitably designed throughout the specified period;~~
 - ~~(iii) The controls related to the control objectives stated in XYZ Service Organisation's description of its system operated effectively throughout the specified period.~~~~
- ~~(b) For design of the system, comprising controls which will achieve control objectives which are likely to be relevant to customers', who have used [the type or name of] system, internal control as it relates to financial reporting;~~
- ~~(c) To provide us with:
 - ~~(i) Access to all information of which those charged with governance and management are aware that is relevant to the design, implementation and operation of the [investment management services] system;~~~~

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- (ii) Additional information that we may request from those charged with governance and management for the purposes of this assurance engagement; and
- (iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain evidence.

As part of our assurance process, we will request from [management and, where appropriate, those charged with governance], written confirmation concerning representations made to us in connection with the engagement.

[Management/those charged with governance] of [service organisation] are responsible for:

provision of [investment management services] to clients of [service organisation];

identification of the control objectives relevant to the financial reporting of clients to whom [investment management services] are provided by [service organisation];

the design, implementation and operating effectiveness of controls at [service organisation] that provide reasonable assurance that those control objectives will be achieved;

evaluation of the accuracy of the description, suitability of the design [and operating effectiveness] of [service organisation]'s controls in achieving those objectives and provision of a report of [management/those charged with governance]'s assertions thereon;

the presentation and description of control objectives and allied controls in a "Description of Control Objectives and Controls relating to [investment management services]", attached to the [service organisation] Report; and

disclosing to us for the relevant period, any significant changes in controls, including sub-service arrangements; illegal acts, fraud, or uncorrected errors attributable to the service organisation's management or employees that may affect its user entities and the service organisation's whistle-blowing arrangements; relevant design deficiencies in controls of which it is aware, including those for which management believe the cost of corrective action may exceed the benefits; and all significant instances of which it is aware when controls have not operated with sufficient effectiveness to achieve the

Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 1, Section B Example 1

~~specified control objectives and identification of those instances which have been reported to user entities.~~

~~In identifying control objectives, [management/those charged with governance] XYZ Service Organisation's description of the system will include the control objectives for [investment management services] set out in GS 007, but they may add to these to the extent that this is considered appropriate in order to the control objectives are likely to be relevant to customers', who have used [the type or name of] system, internal control as it relates to financial reporting meet user entities' expectations. If [management/those charged with governance] consider any of the control objectives from GS 007 for [investment management services] are not applicable to XYZ[the Service Organisation], then they will include an explanation of the omission of that objective in the [XYZ Service Organisation]'s Report description of the system.~~

[Assurance Approach]

We will examine and evaluate the control objectives and controls for [investment management services] system described above. The "Description of [investment management services] System" will include details of controls with which customers should comply. While our evaluation will include assessment of the appropriateness of the complementary customer controls, our testing will not encompass evaluation of the suitability of design or operating effectiveness of controls carried out by users of XYZ Service Organisation's [investment management services] system. The control objectives stated in XYZ Service Organisation's description of its system can be achieved only if complementary user entity controls are suitably designed or operating effectively, along with the controls at the service organisation.

Our procedures will extend to the control objectives and related controls at relevant subservice organisations only to the extent that those controls are included in XYZ Service Organisation's description of [investment management services] system and are necessary to achieve the relevant control objectives.

Due to the complex nature of internal control, our assurance procedures will not encompass all individual controls at XYZ Service Organisation, but will be restricted to an examination of those controls reported which achieve the

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Appendix 1, Section B Example 1

control objectives identified by XYZ Service Organisation’s management in the “Description of the [investment management services] System” provided to us.

[Assurance Procedures]

Our assurance procedures are likely to include:

1. Performing a preliminary review of the control environment of XYZ Service Organisation relevant to the [investment management services] system;
2. Evaluating the reasonableness of the control objectives against the minimum objectives for [investment management services] provided in GS 007;
3. Evaluating the completeness, accuracy and presentation of the Description of the [investment management services] System against the controls implemented.
4. Evaluating the design of specific controls by:
 - (i) Assessing the risks that threaten the achievement of the control objectives.
 - (ii) Evaluating whether the controls described are capable of addressing those risks and achieving the related objectives.
5. Performing tests of controls to ascertain whether the degree of compliance with controls is sufficient to provide reasonable assurance that the controls have achieved their objectives throughout the period.

In undertaking this engagement, we shall work closely with XYZ Service Organisation’s internal audit function and place reliance on their work in accordance with ASA 610 Using the Work of Internal Auditors [this paragraph is applicable where the work of internal audit is an integral part of the assurance engagement].

[Assurance Report]

The format of the report will be in accordance with ASAE 3402 ~~Our~~ assurance report will include the matters described in GS 007 and will include an opinion on the ~~accuracy of the~~ “Description of the Control

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Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*

Appendix 1, Section B Example 1

~~Objectives and Controls relating to [investment management services provided] System” by XYZ Service Organisation management and an accompanying description of the tests of controls that we performed and the results of those tests. and on [management/those charged with governance]’s assertions regarding the description, design, implementation [for Type B Controls Reports: and operating effectiveness] of those controls contained in the [service organisation] Report. An example of the proposed report is contained in the appendix to this letter.~~

Our report will be issued [frequency] and will cover [period reported on] (paragraph is appropriate for recurring engagements).reporting period]^{††§}.

^{††§}—This paragraph is appropriate for recurring engagements.

Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 1, ~~Section B~~Example 1

Distribution of the Assurance Report

~~The assurance report will~~ ~~We understand that our report may~~ be incorporated in a report issued by the XYZ Service Organisation Report containing information prepared by XYZ Service Organisation management/those charged with governance of [service organisation] to provide to customers/clients and the clients' their auditors with an overall understanding of [subject matter]. the control objectives and controls over [investment management services]. We will review the contents of the report issued by XYZ Service Organisation to identify any material inconsistencies with the Description of the [investment management services] System

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[Distribution of the Assurance Report]

Our report and the accompanying description of tests of controls are intended only for customers of XYZ Service Organisation which use the [investment management services] system and their auditors, who have a sufficient understanding to consider it, along with other information including information about controls operated by customers themselves, when assessing the risks of material misstatements of customers' financial reports.

Our assurance report will be prepared for this purpose only and we disclaim any assumption of responsibility for any reliance on our report to any person other than to ~~the XYZ Service Organisation's customers and their auditors~~ or for any purpose other than that for which it was prepared.^{†††} be incorporated in a report issued by the XYZ Service Organisation containing information prepared by XYZ Service Organisation management to provide and their auditors with an overall understanding of [subject matter].

^{†††} Use of the report & liability limitation: insert additional wording, if any, required to reflect any liability arrangements agreed between the service auditor, the service organisation and other users, including confirmation of the purpose for which the service auditor's report has been prepared and the basis on which other parties may use the report.

Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 1, ~~Section B~~ Example 1

[Significant Deficiencies in Controls]

Modified Report

We will issue an ~~assurance report~~^{opinion} without modification, to provide reasonable assurance on the ~~controls of~~ [investment management services] ~~system~~ where our ~~procedures do not disclose a significant deficiency in the controls necessary to achieve the control objectives contained in the~~ Description of the [investment management services] System by XYZ Service Organisation management. For this purpose, a significant deficiency exists when prescribed control procedures, or the degree of compliance with them:

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~~assurance work does not reveal that:~~

- (a) ~~does not provide XYZ Service Organisation management with reasonable assurance that the control objectives will be met or that fraud, error, or non-compliance with laws and regulations would be prevented or detected by employees in the normal course of their assigned functions; and~~
- (b) ~~knowledge of that deficiency would be material to users of the assurance report.~~

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~~[management/those charged with governance]'s description of controls and control objectives is not accurately described in all material respects; the controls are not suitably designed to provide reasonable assurance that the specified control objectives would have been achieved if the controls operated effectively;~~

~~the controls were not implemented as at the period end; or~~

~~[For Type B Controls Reports: the controls did not operate effectively throughout the specified period].~~

If our assurance ~~engagement discloses work reveals~~ that there are significant deficiencies in the system of controls in operation ~~material exceptions during~~ the period covered by the ~~[service organisation] R~~ report, such ~~deficiencies/exceptions~~ will be disclosed in our report even if they were corrected prior to the end of the reporting period. However, our report will indicate that such ~~deficiencies/exceptions~~ were corrected if that is the case. If any significant deficiencies ~~material exceptions~~ disclosed in our report have

Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 1, ~~Section B~~Example 1

been corrected subsequent to this period (or are in the process of being corrected), we will refer to this in our report.

Although the primary purpose of our assurance engagement will be to enable us to ~~express an opinion on controls~~issue the above described report, will also periodically provide you with we may also provide you with a separate letters containing recommendations for ~~strengthening~~ improving controls if ~~such matters~~weaknesses are observed during the process of the assurance engagement. Although ~~weaknesses~~ issues raised may not represent ~~significant deficiencies~~ material weaknesses in the system of controls, recommendations will address areas where we believe controls could be improved.

Inherent Limitations

~~Because of the inherent limitations of any internal control structure it is possible that material errors or irregularities may occur and not be detected. Further, the internal control structure, within which the controls operate that we will evaluate, will not be examined [except for...]. Hence no opinion will be expressed as to the effectiveness of the internal control structure as a whole.~~

~~[Insert for Type B Controls Reports: The work undertaken by us to form an opinion is permeated by judgement, in particular regarding the nature, timing and extent of assurance procedures for gathering evidence and the drawing of conclusions based on the evidence gathered. In addition to the inherent limitations in any assurance engagement, which include the use of testing, inherent limitations of any internal control structure, and the possibility of collusion, most evidence is persuasive rather than conclusive. As a result, an assurance engagement can only provide reasonable, not absolute, assurance that control procedures have operated effectively throughout the period.]~~

Assurance Approach

~~We will examine and evaluate the control objectives and controls for [investment management services] described in the [service organisation] Report. That description may include details of complementary controls which need to be in place at clients of [service organisation] in order to achieve specified objectives. While our evaluation will include assessment of the appropriateness of complementary controls, our testing will not encompass controls designed and operated by clients.~~

Comment [C55]: May need to clarify difference between deviations and deficiencies.

Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*

Appendix 1, ~~Section B~~[Example 1](#)

~~Due to the complex nature of controls, our engagement will not encompass all individual controls at [service organisation], but will be restricted to an examination of those controls identified in the [service organisation] Report provided to us.~~

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Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 1, Section B Example 1

Assurance Procedures

The nature, timing and extent of tests of controls which we conduct along with exceptions identified, and remedial action taken, will be set out in an attachment to our report. Our work will involve enquiries of management, together with tests of specific control procedures, including:

Performance of a preliminary review to gain an understanding of the control environment of [service organisation] and to plan our engagement.

Comparison of the control objectives described in the [service organisation] Report to the minimum control objectives provided in GS 007 for the services provided by [service organisation] to clients to determine whether all relevant control objectives are included in the report and whether controls are identified to meet those objectives.

Evaluation of the accuracy of the description of controls by comparison of that description to the implemented controls.

Evaluation of the design of the described controls by conducting procedures to determine whether the documented controls in place are capable of achieving the objectives.

Performance of tests of controls to ascertain whether the degree of compliance with control procedures is sufficient for the controls to achieve their objectives.

Evaluation of information prepared by [management/those charged with governance] of [service organisation] and contained in the [service organisation] Report using procedures similar to those contained in GS 007.

In undertaking this engagement, we shall work closely with [service organisation]'s internal audit and may place reliance on their work¹²⁰.

We will also request a representation letter from management of [service organisation] that would confirm oral representations provided to us during the course of our work.

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¹²⁰ — Applicable where the service auditor intends to use the work of internal audit.

Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 1, ~~Section B~~Example 1

Fees

We look forward to full co-operation from your staff during our assurance engagement ~~and we trust that they will make available to us whatever records, documentation and other information are requested in connection with our engagement.~~

[Other relevant information]

[Insert additional information here regarding such as fee arrangements, and billings and other specific terms, as appropriate.]

Other

~~This letter will be effective for future periods unless it is terminated, amended or superseded.~~

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, ~~that it is in accordance with your understanding of~~ the arrangements for our assurance engagement to report on the control procedures over XYZ ~~Service~~ Organisation's [investment management services] services to customers, including our respective responsibilities.

Yours faithfully,
[signed]

.....
Name and Title

Date

Acknowledged on behalf of XYZ ~~Service~~ Organisation ~~by~~
[signed]

.....
Name and Title

Date

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Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 1, ~~Section B~~

~~Section B~~ Example 2: Example Engagement Letter for an Audit of Specified Assertions

To [the appropriate representative of management or those charged with governance] of the [service organisation] XYZ Service Organisation.¹²¹

[The objective and scope of the audit]

You¹²² have requested that we audit the [specify assertions audited: for transactions or events: occurrence, completeness, accuracy, cut-off and classification; for balances: existence, rights and obligations, completeness or valuation and allocation; or for presentation and disclosure: occurrence, rights and obligations, completeness, classification and understandability and accuracy and valuation] of the assets [and liabilities or transactions] in the [title of ~~special purpose~~ the financial ~~report~~ statement] of [user entity/entities] ("the Statement"), which comprises the [statement of assets and liabilities] as at [date], and the [statement of transactions] for the [period] then ended, concerning the assets and liabilities of [user entity/ies]¹²³ [nature of investment management services: managed by or in the custody of] [XYZ service organisation] as at [date].

We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the [specify assertions audited: existence, rights and obligations, completeness or valuation & allocation] of the assets [and liabilities or transactions] in the Statement.

[The responsibilities of the auditor]

We will conduct our audit in accordance with the Auditing Australian Auditing Standards ~~of the Auditing and Assurance Standards Board~~

¹²¹ The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons – see ASA 210 Paragraph A21.

¹²² Throughout this letter, references to "you," "we," "us," "management," "those charged with governance" and "auditor" would be used or amended as appropriate in the circumstances.

¹²³ Where the assets are held in the name of a nominee holding company insert "held in the name of [nominee holding company]".

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Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*

Appendix 1, ~~Section B~~Example 2

~~(AUASB)~~, in particular ASA ~~402-805~~ Special Considerations Audit Considerations Relating to Entities Using Service Organisations – Audit of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement, and with reference to GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*. ~~Auditing Standards~~ Those Standards require that we comply with ~~relevant~~ ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the Statement is free from material misstatement with respect to the assertions specified. ~~An~~ This audit involves performing ~~audit~~ procedures to obtain audit evidence about the [specify assertions audited: existence, rights and obligations, completeness or valuation & allocation] of the assets [and liabilities or transactions] in the Statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement with respect to the [specify assertions audited: existence, rights and obligations, completeness or valuation & allocation] of the assets [and liabilities or transactions] in the Statement, whether due to fraud or error. An audit also includes evaluating the appropriateness of the financial reporting framework, accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the presentation of the Statement with respect to the [specify assertions audited] of the assets [and liabilities or transactions] in the Statement.

Because of the ~~test nature and other~~ inherent limitations of an audit, together with the inherent limitations of ~~any accounting and~~ internal control ~~system~~, there is an unavoidable risk that even some material misstatements may ~~remain undiscovered~~ not be detected, even though the audit is properly planned and performed in accordance with Australian Auditing Standards.

In making our risk assessments, we consider internal controls relevant to ~~the~~ entity's XYZ Service Organisation's preparation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ~~the~~ entity's XYZ

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Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*

Appendix 1, ~~Section B~~ Example 2

~~Service Organisation's~~ controls¹²⁴. However, we ~~will communicate~~ expect to ~~provide you with a separate letter in writing concerning any material weaknesses in the design or implementation of significant deficiencies in internal controls over financial reporting on behalf of [user entity/ies], that come to our attention we have identified~~ during the audit of the [specify assertions audited] of the assets [and liabilities or transactions] in the Statement.

We will report any uncorrected misstatements which we have aggregated during the audit but that were determined by management to be immaterial, both individually and in aggregate, to the Statement taken as a whole, other than amounts which are clearly trivial, in an attachment to our report.

~~[The responsibilities of Those Charged with Governance management and identification of the applicable financial reporting framework]~~

~~We take this opportunity to remind you~~ Our audit will be conducted on the basis that the responsibility for the preparation and fair presentation of the Statement in accordance with [specify framework]¹²⁵ is that of [those charged with governance]. Our auditor's report will explain that [those charged with governance] are responsible for the preparation and the fair presentation of the Statement in accordance with the applicable financial reporting framework and this responsibility includes: that management and, where appropriate, those charged with governance¹²⁶, acknowledge and understand that they have responsibility:

- (a) ~~Establishing and maintaining controls relevant~~ For such internal control as [management] determines is necessary to enable the

¹²⁴ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the Statement, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to [name of service organisation]'s preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances."

¹²⁵ Insert "applicable Australian Accounting Standards" where multiple Australian Accounting Standards were applied; insert reference to a specific Australian Accounting Standard where appropriate (for example: "the measurement standards of AAS 25 Financial Reporting by Superannuation Plans."); or "the accounting policies described in Note X to the Statement".

¹²⁶ Use terminology as appropriate in the circumstances. For an audit under the *Corporations Act 2001*, the appropriate terminology is "the Directors".

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Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 1, ~~Section B~~Example 2

preparation of a ~~S~~statement that is free from misstatement, whether due to fraud or error.

~~(b) — Selecting and applying appropriate accounting policies.~~

~~(c) — Making accounting estimates that are reasonable in the circumstances.~~

(b) To provide us with:

(i) Access to all information of which those charged with governance and management are aware that is relevant to the preparation of the Statement such as records, documentation and other matters

(ii) Additional information that we may request from which those charged with governance and management for the purpose of the audit; and

(iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence

As part of our audit process, we will request from [management and, where appropriate, those charged with governance] written confirmation concerning representations made to us in connection with the audit.

We look forward to full cooperation from your staff during our audit.

[Distribution of the Auditor's Report]

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We understand that our report may be incorporated in a report prepared by XYZ service organisation for distribution to the [Trustee/those charged with governance] of [user entity] for the purpose of fulfilling the [those charged with governance] of XYZ service organisation's reporting obligations under the [title of contract or service level agreement]. Our report will be prepared for this purpose only and we disclaim any assumption of responsibility for any reliance on our report, or on the Statement to which it relates, to any person other than [those charged with governance] of XYZ service organisation, [the Trustee/those charged with governance] of [~~client~~customer]

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Appendix 1, ~~Section B~~Example 2

and their Auditor, or for any other purpose other than that for which it was prepared.¹²⁷

[Other relevant information] ▲

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[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.] ▲

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[Reporting]

[Insert appropriate reference to the expected form and content of the auditor's report.]

The form and content of our report may need to be amended in the light of our audit findings.

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Independence ▲

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We confirm that, to the best of our knowledge and belief, the engagement team are independent of [user entity /user entities/~~ies~~] in accordance with [specify relevant ethical requirements] in relation to the audit of the [specify assertions audited] of the assets [and liabilities or transactions] in the Statement. In conducting our audit of the ~~Statement~~[specify assertions audited] of the assets [and liabilities or transactions] in the Statement, should we become aware that we are not in compliance with the independence requirements of [specify relevant ethical requirements] we shall notify you on a timely basis.

¹²⁷ Use of the report & liability limitation: insert additional wording, if any, required to reflect any liability arrangements agreed between the service auditor, the service organisation and other users, including confirmation of the purpose for which the service auditor's report has been prepared and the basis on which other parties may use the report.

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Appendix 1, ~~Section B~~Example 2

Fees

~~We look forward to full cooperation from your staff and we trust that they will make available to us whatever records, documentation and other information we request in connection with our audit.~~

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~~Insert additional information here regarding fee arrangements and billings, as appropriate.~~

Other

~~This letter will be effective for future periods unless it is terminated, amended or superseded.~~

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Please sign and return the attached copy of this letter to indicate ~~that it is in accordance with your understanding~~ your acknowledgement of and agreement with, the arrangements for our audit of [specify assertions audited] of the assets [and liabilities or transactions] in the Statement including our respective responsibilities.

Yours faithfully,

(signed)

.....

Partner

Firm

Acknowledged and agreed on behalf of XYZ Service Organisation by (signed)

.....

Name and Title

Date

Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*

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Appendix 2, Section B

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Example 3 ~~Section C~~: Engagement Letter for an Audit of a Statement

To the appropriate representative of management or those charged with governance of the XYZ ~~service organisation~~.¹²⁸

[The objective and scope of the audit]

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You¹²⁹ have requested that we audit the [title of special purpose financial statement report] of [user entity/ies]¹³⁰ (“the Statement”), which comprises the [statement of assets and liabilities] as at [date], and the [statement of transactions] for the year then ended, concerning the assets [and liabilities or transactions] of [user entity/ies]¹³¹ [insert nature of investment management services: managed by or in the custody of] XYZ ~~service organisation~~ as at [date].

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We are pleased to confirm our acceptance and our understanding of this engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on the Statement.

[The responsibilities of the auditor]

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We will conduct our audit in accordance with the Australian Auditing Standards of the Auditing and Assurance Standards Board (AUASB), in particular ASA 402 Audit~~805~~ Special Considerations Relating to Entities Using Service Organisations – Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement, and with

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¹²⁸ The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons – see ASA 210 Paragraph A21.

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¹²⁹ Throughout this letter, references to “you,” “we,” “us,” “management,” “those charged with governance” and “auditor” would be used or amended as appropriate in the circumstances.

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¹³⁰ If certain assertions are specifically excluded from the audit then insert: “except for [specify assertions excluded, e.g. presentation & disclosure] of the Statement”.

¹³¹ Where the assets are held in the name of a nominee holding company insert “held in the name of [nominee holding company]”.

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Appendix 1, ~~Section B1, Example 3~~

reference to GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*. ~~Auditing Those~~ Standards require that we comply with ~~relevant~~ ethical requirements ~~relating to audit engagements~~ and plan and perform the audit to obtain reasonable assurance whether the Statement is free from material misstatement. [If the user auditor has provided a materiality level to apply in the audit insert: The ~~performance quantitative~~ materiality level, which we will apply in determining the nature, timing and extent of audit procedures and in ~~making our quantitative evaluation of~~ evaluating the effect of misstatements identified, has been provided by the auditor of [user entity] and is [x] percent of [total assets/net assets].] ~~This An~~ audit involves performing ~~audit~~ procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. An audit also includes evaluating the appropriateness of the financial reporting framework, accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Statement.

Because of the ~~test nature and~~ other inherent limitations of an audit, together with the inherent limitations of ~~any accounting and~~ internal control ~~system~~, there is an unavoidable risk that even material ~~misstatements may remain undiscovered~~ ~~misstatements not be detected, even though the audit is properly planned and performed in accordance with Australian Auditing Standards~~.

In making our risk assessments, we consider ~~internal controls~~ relevant to ~~the entity's XYZ Service Organisation's~~ preparation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of ~~the entity's XYZ Service Organisation's~~ controls¹³². However, we ~~expect will communicate to provide you with a separate letter in writing~~ concerning any ~~material weaknesses in the design or implementation of~~ ~~significant deficiencies in~~

¹³² In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the Statement, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to [name of service organisation]'s preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances."

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Appendix 1, [Section B1, Example 3](#)

[internal](#) controls over financial reporting on behalf of [user entity], that ~~come to our attention~~ [we have identified](#) during the audit of the Statement.

We will report any uncorrected misstatements which we have aggregated during the audit but that were determined by management to be immaterial, both individually and in aggregate, to the Statement taken as a whole, other than amounts which are clearly trivial, in an attachment to our report.

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Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 1, Section B1, Example 3

[The responsibilities of Those Charged with Governance management and identification of the applicable financial reporting framework]

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We take this opportunity to remind you Our audit will be conducted on the basis that the management and, where appropriate, those charged with governance¹³³ acknowledge and understand that they have responsibility:

(a) for the preparation and fair presentation of the Statement that gives a true and fair view in accordance with [specify framework]¹³⁴ is that of [those charged with governance]. Our report will explain that [those charged with governance] are responsible for the preparation and the fair presentation of the Statement in accordance with the applicable financial reporting framework and this responsibility includes: and Australian Accounting Standards.

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(b) Establishing and maintaining controls relevant For such internal control as [management] determines is necessary to enable the preparation of a Statement that is free from misstatement, whether due to fraud or error.

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(c) To provide us with:

(i) Access to all information of which those charged with governance and management are aware that is relevant to the preparation of the Statement such as records, documentation and other matters;

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(ii) Additional information that we may request from which those charged with governance and management for the purpose of the audit; and

¹³³ Use terminology as appropriate in the circumstances. For an audit under the *Corporations Act 2001*, the appropriate terminology is “the Directors”.

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¹³⁴ Insert “applicable Australian Accounting Standards” where multiple Australian Accounting Standards were applied; insert reference to a specific Australian Accounting Standard where appropriate (for example: “the measurement standards of AAS 25 Financial Reporting by Superannuation Plans.”); or “the accounting policies described in Note X to the Statement”.

Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 1, Section B1, Example 3

(iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

~~Selecting and applying appropriate accounting policies.~~

~~Making accounting estimates that are reasonable in the circumstances.~~

As part of our audit process, we will request from [management and, where appropriate, from those charged with governance], written confirmation concerning representations made to us in connection with the audit.

We look forward to full cooperation from your staff during our audit.

~~[Distribution of the Auditor's Report]~~

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We understand that our report may be incorporated in a report prepared by XYZ [Service Organisation] for distribution to the [Trustee/those charged with governance] of [user entity] for the purpose of fulfilling the [those charged with governance] of XYZ [Service Organisation]'s reporting obligations under the [title of contract or service level agreement]. Our report will be prepared for this purpose only and we disclaim any assumption of responsibility for any reliance on our report, or on the Statement to which it relates, to any person other than [those charged with governance] of XYZ [Service Organisation], [the Trustee/those charged with governance] of ~~[client/customer]~~ and their Auditor, or for any other purpose other than that for which it was prepared.¹³⁵

~~[Other relevant information]~~

~~[Insert other information, such as fee arrangements, billings and other specific terms, as appropriate.]~~

~~[Reporting]~~

~~[Insert appropriate reference to the expected form and content of the auditor's report.]~~

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The form and content of our report may need to be amended in the light of our audit findings.

¹³⁵ Use of the report & liability limitation: insert additional wording, if any, required to reflect any liability arrangements agreed between the service auditor, the service organisation and other users, including confirmation of the purpose for which the service auditor's report has been prepared and the basis on which other parties may use the report.

Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 1, Section B1, Example 3

Independence

We confirm that, to the best of our knowledge and belief, the engagement team is independent of [user entity/user entities] in accordance with [specify relevant ethical requirements] in relation to the audit of the Statement. In conducting our audit of the Statement, should we become aware that we have contravened the independence requirements of [specify relevant ethical requirements] we shall notify you on a timely basis.

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Fees

~~We look forward to full cooperation from your staff and we trust that they will make available to us whatever records, documentation and other information we request in connection with our audit.~~

~~Insert additional information here regarding fee arrangements and billings, as appropriate.]~~

Other

~~This letter will be effective for future periods unless it is terminated, amended or superseded.~~

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Please sign and return the attached copy of this letter to ~~indicate that it is in accordance with your understanding~~your acknowledgement of, and agreement with, the arrangements for our audit of the Statement including our respective responsibilities.

Yours faithfully,

(signed)

.....

Name and Title

Date

Partner

Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*

Appendix ~~1, Section B1, Example 3~~

Firm

Acknowledged and agreed on behalf of [XYZ Service Organisation] by
(signed)

.....

Name and Title

Date _____

Draft

Appendix 2, Section B

Appendix 2

(Ref: para)

SERVICE ORGANISATION'S TYPE 2 CONTROLS REPORTS ASSERTION AND DESCRIPTION OF THE SYSTEM

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The following example ~~Controls Reports are~~ is for use as a guide only, in conjunction with the considerations described in GS 007, and ~~will need to be varied according to individual requirements and circumstances~~ are not intended to be exhaustive or applicable to all situations.

Section A: Example Service Organisation's Controls Report

Comment [CHG56]: Aligned with ASAE 3402 Appendix 1

XYZ [Service Organisation]'s Report Type 2 Assertion by [management/those charged with governance] concerning controls over on the [investment Mmanagement Sservices] System

As the ~~[management/those charged with governance]~~ of ~~[service organisation]~~, we are responsible for the identification of control objectives relating to clients' assets, liabilities and related transactions in the provision of ~~[specify investment management services provided: custody, asset management, property management, superannuation member administration, investment administration, registry]~~ and the design, implementation and operation of the controls of ~~[service organisation]~~ to provide reasonable, but not absolute, assurance that the control objectives are achieved.

In carrying out those responsibilities, we have had regard not only to the interests of clients but also to those of the owners of the business and to the general effectiveness of the relevant controls and efficiency of the relevant operations.

This report sets out control objectives for the ~~[investment management services]~~ services of ~~[service organisation]~~ and the specific controls established to meet each of those objectives. Assertion by the Service Organisation

Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*

Appendix 1, Section B2

The accompanying description has been prepared for customers who have used [the type or name of] system and their auditors who have a sufficient understanding to consider the description, along with other information including information about controls operated by customers themselves, when assessing the risks of material misstatements of customers' financial reports/statements. [Entity's name] confirms that:

The accompanying description at pages [bb-cc] fairly presents [the type or name of] system for processing customers' transactions throughout the period [date] to [date]. The criteria used in making this assertion were that the accompanying description:

Presents how the system was designed and implemented, including:

- The types of services provided, including, as appropriate, classes of transactions processed.
- The procedures, within both information technology and manual systems, by which those transactions were initiated, recorded, processed, corrected as necessary, and transferred to the reports prepared for customers.
- The related accounting records, supporting information and specific accounts that were used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information was transferred to the reports prepared for customers.
- How the system dealt with significant events and conditions, other than transactions.
- The process used to prepare reports for customers.
- Relevant control objectives and controls designed to achieve those objectives, including the control objectives for [investment management services] provided in *Guidance Statement 007 Audit Implications of the Use of Service Organisations for Investment Management Services* except for [number excluded] control objectives for the reasons set out in the attached *Description of*

Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 1, Section B2

Controls in Operation.¹³⁶ Controls that we assumed, in the design of the system, would be implemented by customers, and which, if necessary to achieve control objectives stated in the accompanying description, are identified in the description along with the specific control objectives that cannot be achieved by ourselves alone.

- Other aspects of our control environment, risk assessment process, information system (including the related business processes) and communication, control activities and monitoring controls that were relevant to processing and reporting customers' transactions.

Includes relevant details of changes to the service organisation's system during the period [date] to [date].

Does not omit or distort information relevant to the scope of the system being described, while acknowledging that the description is prepared to meet the common needs of a broad range of customers and their auditors and may not, therefore, include every aspect of the system that each individual customer may consider important in its own particular environment.

The controls related to the control objectives stated in the accompanying description were suitably designed and operated effectively throughout the period [date] to [date]. The criteria used in making this assertion were that:

The risks that threatened achievement of the control objectives stated in the description were identified;

The identified controls would, if operated as described, provide reasonable assurance that those risks did not prevent the stated control objectives from being achieved; and

The controls were consistently applied as designed, including that manual controls were applied by individuals who have the appropriate competence and authority, throughout the period [date] to [date].

These control objectives include the control objectives for [investment management services] provided in Guidance Statement 007 Audit Implications of the Use of Service Organisations for Investment Management

¹³⁶ Insert if certain control objectives specified in this Guidance Statement are not met by relevant controls.

Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 1, Section B₂

~~Services] issued by the Auditing and Assurance Standards Board [except for [number excluded] control objectives for the reasons set out in the attached Description of Controls in Operation]¹³⁷.~~

~~We set out in this report a description of the relevant controls, together with the related control objectives, which operated during the [year or other period] to [date] and confirm that:~~

~~this report describes accurately the controls that relate to the control objectives referred to above which were in place throughout the [year or other period] to [date];~~

~~the controls described are suitably designed to achieve the specified control objectives¹³⁸;~~

~~the controls were implemented; and~~

~~the controls described were operating effectively throughout the [year or other period] to [date].~~

Signed on behalf of [Management/Those Charged with Governance]

Date

¹³⁷ — Insert if certain control objectives specified in this Guidance Statement are not met by relevant controls.

¹³⁸ Where there are complementary internal controls which are required to be in place at the Client in order for the service organisation's controls to be effective in meeting their objective insert: “, if [user-entity] applied the complementary internal controls identified”.

Appendix 1, Section B2

ATTACHMENT 1: Management/Those Charged with Governance] XYZ Service Organisation’s Description of Control Objectives and Controls over the [Investment Management Services] System Accompanying XYZ Service Organisation Management’s Assertion

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XYZ SERVICE ORGANISATION’S [INVESTMENT MANAGEMENT SERVICES] SYSTEM

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Services Provided

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XYZ Service Organisation (XYZ) provides its customers with [Investment Management Services: custody; asset management, property management, superannuation member administration, investment administration or registry] services, which involves [describe services provided].

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The System

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The stated internal control objectives and related controls included in this report apply to XYZ operations as they relate only to [investment management] services. Specifically excluded from this report are controls within individual systems, controls executed at customer premises and other services provided by XYZ, including [other related services provided to customers].

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The effectiveness of controls performed by customers of XYZ should also be considered as part of the overall system of control relating to XYZ’s [investment management] services.

[Describe, as appropriate:¹³⁹

- *The procedures, within both information technology and manual systems, by which those transactions were initiated, recorded, processed, corrected as necessary, and transferred to the reports prepared for customers.*
- *The related accounting records, supporting information and specific accounts that were used to initiate, record, process and report*

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¹³⁹ Aspects of the system to be described here relate to the manner in which the system operates to provide services to customers but do not include specific controls which are designed to achieve the control objectives.

Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 1, Section B2

transactions; this includes the correction of incorrect information and how information is transferred to the reports prepared for customers.

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How the system dealt with significant events and conditions, other than transactions.

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The process used to prepare reports for customers.

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This may include a description of the flow of transactions or a flowchart.

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Controls at Subservice Organisations¹⁴⁰

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[XYZ Service Organisation] uses [name of subservice organisation] to provide [type or name of] services, which form part of the [investment management services] system used by XYZ Service Organisation's customers. The [type or name of] services provided by [subservice organisation] are [describe the nature of the services provided]. XYZ Service Organisation's description of the system includes XYZ Service Organisation's monitoring controls over the operating effectiveness of the controls at [subservice organisation] and [includes/excludes]¹⁴¹ the relevant control objectives and related controls of [subservice organisation].

Internal Control Objectives and Related Controls

We set out in this report the control objectives and related controls implemented for XYZ Service Organisation. The specific controls set out in the remainder of the report have been designed to achieve each of the control objectives. The controls have been in place throughout the period from [date] to [date] unless otherwise indicated.

The Controls which were in operation at- XYZ Service Organisation] throughout the period from [date] to [date], or during a lesser

¹⁴⁰ Insert this section if XYZ Service Organisation uses a subservice organisation which performs some of the services provided to customers which use the system.

¹⁴¹ Use "includes" if the inclusive method is used and "excludes" if the carve-out method is used with respect to the subservice organisation's services.

Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 1, Section B2

period where specified, to ensure that the identified Control Objectives over [investment management services] are achieved were:

Internal Control Objective

[Insert eControl objectives, including those for the relevant investment management services from GS 007 Appendix 2 Section B.]¹⁴²

Related Controls

(a) [List controls in operation during the specified period relating to each control objective]. ~~Where the control has not been in place for the entire reporting period:~~

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(a) ~~note the time period it was in operation by month and year; and~~

(b) ~~list the superseded controls which were previously in place during the period and the time period they were in operation.~~

~~**Period of operation:** If the control has not been in operation the entire period or has changed, state the period during which the control was operating and the period during which the change was effective.~~¹⁴³

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~~**Complementary customer controls:** Describe any complementary user entity controls contemplated in the design of the controls.~~¹⁴⁴

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[The description may be presented in various formats such as narratives, flowcharts, tables or graphics, with an indication of the extent of manual and computer processing used.]¹⁴⁵

¹⁴² Where the control objective is excluded, insert: “This control objective is not relevant to the operations of [service organisation]’s [investment management services] and so has not been addressed by the controls because [specify reasons]”

¹⁴³ This section should be inserted for each control which has not been in operation for the whole period or has changed during the period.

¹⁴⁴ This section should be inserted for each control for which there are complementary user entity controls contemplated in the design of the control.

¹⁴⁵ In the rare circumstances where the service organisation considers that complementary controls need to be in place at the user entity in order to meet the control objective, insert:

Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*

Appendix 1, [Section B2](#)

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“Complementary User Entity Controls

The following complementary controls are assumed to be in place at [user entity] in order for the control listed above to be effective in addressing the control objective: [List complementary internal controls which need to be in place at the user entity]²²

Appendix 3, Section A

Section B: Appendix 3

(Ref: para)

Definitions and MINIMUM CONTROL OBJECTIVES FOR EACH Investment Management Service INVESTMENT MANAGEMENT SERVICE

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This section sets out detailed control objectives for the investment management services referred to in GS 007 paragraph 8 and further defined below. The control objectives listed are the minimum objectives which the service auditor and users of the Controls Type 1 or 2 Report may reasonably expect to be addressed in the Service Organisation's description of its system Controls Report but are not intended to be exhaustive. It remains the responsibility of management, or those charged with governance, of the [service organisation] to ensure that the described control objectives are sufficient to meet the likely to be relevant to customer's controls as they relate to financial reporting expectations of user entities. User entity/ies are referred to as client/s in these control objectives.

A. Custody

Definition:

"Custody" is the performance of the following functions on behalf of user entities:

- Maintaining custody of assets and records of the assets held for user entities (Such assets may exist in physical or electronic form).
- Collecting income and distributing such income to user entities.
- Receiving notification of corporate events and reflecting such events in the records of user entities.
- Receiving notification of asset purchase and sale transactions on behalf of user entities for which the custodian is holding assets, and reflecting such transaction in the records of user entities.

Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*

Appendix 4~~Appendix 1, Section B~~

- Receiving payments from purchasers and disbursing proceeds to sellers for asset purchase and sale transactions.

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Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 4~~Appendix 1, Section B~~

Control Objectives:

Accepting ~~clients~~customers

~~A2.A1.~~ Accounts are set up completely and accurately in accordance with ~~client~~customer agreements and applicable ~~regulations~~regulation, if any.

~~A3.A2.~~ Complete and authorised ~~customer~~client agreements are established prior to initiating custody activity.

~~A4.A3.~~ Investment holdings and related history (where applicable) transferred from prior custodians are received and recorded completely, accurately and on a timely basis.

Authorising and processing transactions

~~A5.A4.~~ Investment and related cash and foreign exchange transactions are authorised and recorded completely, accurately and on a timely basis in accordance with ~~customer~~client instructions.

~~A6.A5.~~ Investment and related cash and foreign exchange transactions are settled completely, accurately and on a timely basis and failures are resolved in a timely manner.

~~A7.A6.~~ Corporate events and voting instructions are identified, actioned, processed and recorded on a timely basis.

~~A8.A7.~~ Cash receipts and payments are authorised, processed and recorded completely, accurately and on a timely basis.

~~A9.A8.~~ Securities lending programs are authorised and loan initiation, maintenance and termination are recorded on an accurate and timely basis.

~~A9.~~ Loans are collateralised in accordance with the lender's agreement and the collateral together with its related income is recorded completely, accurately and on a timely basis.

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Comment [CG57]: Adequate to leave this to professional judgement?

Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 4 Appendix 1, Section B

A10. Collateral is completely and accurately invested in accordance with the lender's agreement.

Comment [CG58]: PwC comment letter

Maintaining financial and other records

A11. Accounts are administered in accordance with customer/agent agreements and applicable regulations.

A12. Changes to significant non-monetary static data (for example, address changes and changes in allocation instructions) are authorised and correctly recorded on a timely basis.

Comment [CG59]: PwC comment letter

A13. Investment income and related tax reclaims are collected and recorded accurately and on a timely basis.

A14. Asset positions for securities held by third parties such as sub custodians and depositories are accurately recorded and regularly reconciled.

Safeguarding assets

A15. Physically Assets held assets (including investments held with depositories, cash and physically held assets) are safeguarded from loss, misappropriation and unauthorised use.

~~A16. Cash is safeguarded and payments are suitably authorised and controlled. Assets held are appropriately registered and segregated from the custodian's own assets and assets of other customers..~~

Comment [CG60]: Based on PwC comment letter; PwC subsequent email suggested: "Customer investments are segregated from the assets of the custodian and appropriate arrangements are in place to prevent the co-mingling of assets of individual customers"

~~A16, A17. If the custodian also provides Asset Management or Investment Administration services: Appropriate segregation exists between the custodian's Asset Management/Investment Administration and Custodian operations to ensure that asset management personnel do not have custody, control or access to assets or to confidential information of the Custodian's other customers.~~

Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 4 Appendix 1, Section B

Monitoring compliance

A17-A18. Sub-custodians and other out-sourced activities are approved and managed in accordance with the requirements of the customer/Client agreement.

A18-A19. Transaction errors are rectified promptly.

Reporting

A19-A20. Customer/Client reporting in respect of customer/Client asset holdings is complete and accurate and provided within required timescales.

A20-A21. Asset positions and details of securities lent are reported to interested parties accurately and within the required time scale, including those responsible for initiating voting instructions.

Monitoring Subservice Organisations¹⁴⁶

A22. The controls at sub-custodians over custody of XYZ Service Organisation's customer's assets are operating effectively throughout the period.

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Comment [CG61]: Only relevant where a controls report is available from the sub-service organisation.

Comment [CG62]: PAG to draft some control objectives to address sub-service orgs. Note overlaps with A.13 and A.18.

Information technology

G.1 – G.14

¹⁴⁶ Include control objectives for monitoring subservice organisations when the carve -out method is used to deal with subservice organisations..

Appendix 4 ~~Appendix 1, Section B~~

B. Asset Management

Definition:

“Asset management” is the investment of money on behalf of ~~client~~ customers and involves the performance of the following functions:

- Initiating and executing purchase and sale transactions, either by specific direction from the ~~customer~~ client or under discretionary authority granted by the ~~customer~~ client.
- Determining whether transactions comply with guidelines and restrictions.
- Reconciling records of security transactions and portfolio holdings, for each ~~client~~ customer, to statements received from the custodian.
- Reporting to the ~~client~~ customer on portfolio performance and activities.

Asset management includes hedge funds and private equity. Hedge funds are private investment funds that participate in a range of assets and a variety of investment strategies intended to protect the fund’s investors from downturns in the market while maximising returns on market upswings. Private equity is an asset class that is not publicly traded on a stock exchange. Control objectives specific to hedge funds and private equity are indicated.

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Comment [C63]: Use this paragraph if the control objectives are to be incorporated into the asset management objectives – remove if they are to be presented separately or not at all.

Control Objectives:

Accepting ~~client~~ customers

- B.1** Accounts are set up completely and accurately in accordance with ~~client~~ customer agreements, and applicable regulations, if any.
- B.2** Complete and authorised ~~client~~ customer agreements, including investment guidelines and restrictions, are established prior to initiating investment activity.

Comment [C64]: Does this adequately cover hedge funds constitutional agreements?

Comment [CG65]: PAG – is there a problem when no customer agreement exists?

Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 4 Appendix 1, Section B

B.3 ~~Asset investment guidelines and restrictions are established and agreed prior to investment management activity.~~

Comment [CG66]: Covered by revisions to B2

B.3 For hedge funds: ~~New hedge funds are properly structured and authorised (where applicable), take account of legal and tax requirements and contain a specified investment strategy.~~

Comment [C67]: Could incorporate Hedge fund objectives in this way - AAF0106 2011 version

Authorising and processing transactions

B.4 Asset investment transactions are properly authorised, executed and allocated in a timely and accurate manner.

B.5 Transactions are undertaken only with approved counterparties.

B.6 Asset investment and related cash transactions are completely and accurately recorded and settled in a timely manner.

B.7 Corporate events and proxy voting instructions are identified and generated, respectively, and then ~~actioned, processed~~ actioned, processed and recorded accurately and in a timely manner.

B.8 ~~Client~~ Customer new monies and withdrawals are processed and recorded completely and accurately, ~~withdrawals are appropriately authorised.~~

Comment [AC68]: AAF0106 2011 version

Maintaining financial and other records

B.9 Accounts are administered in accordance with ~~client~~ customer agreements.

B.10 Changes to significant non-monetary ~~client~~ customer data (for example, address changes and changes in allocation instructions) are authorised and correctly recorded on a timely basis.

Comment [CG69]: PwC comment letter

B.11 Investment income ~~is~~ and related tax are accurately recorded in the proper period.

Comment [AC70]: AAF0106 2011 version

B.12 Investments are valued using current prices obtained from independent external pricing sources or an alternative basis in

Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 4 ~~Appendix 1, Section B~~

accordance with ~~client~~customer agreements in circumstances where independent sources are not available.

Comment [AC71]: AAF0106 2011 version

B.13 Cash and securities positions are completely and accurately recorded and reconciled to third party data.

B.14 Investment management fees and other account expenses are accurately calculated and recorded in accordance with customer agreements.

Comment [C72]: CG suggestion from AAF0106 hedge fund objective

Safeguarding assets Segregation of assets

Comment [AC73]: AAF0106 2011 version

B.15 Investments are properly registered and ~~client~~customer money is segregated.

Comment [C74]: Why is this heading changed in this section but not for every other service?

Monitoring compliance

B.16 ~~Client~~Customer portfolios are managed in accordance with investment objectives, monitored for compliance with investment guidelines and restrictions and performance is measured.

B.17 ~~Outsourced activities~~Asset management services provided are approved, ~~and~~ managed in accordance with the requirements of the ~~client~~customer agreement and conflicts of interest identified to customers.

Comment [AC75]: AAF0106 2011 version

B.18 Transaction errors (including guideline breaches) are rectified promptly and ~~client~~customers treated fairly.

~~B.18~~**B.19** Counterparty exposures are monitored.

Comment [C76]: AAF0106?

Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 4 Appendix 1, Section B

Reporting to client customers

B.20 Client Customer reporting in respect of portfolio transactions, holdings and performance, brokerage and voting is complete and accurate and provided within required timescales.

Monitoring Subservice Organisations¹⁴⁷

B.21 The controls at subservice organisations over asset management of XYZ Service Organisation's customer's investments are operating effectively throughout the period.

B.19B.22 ...

Hedge Fund Asset Management

Scope:

The following additional control objectives apply to hedge funds. Hedge funds are private investment funds that participate in a range of assets and a variety of investment strategies intended to protect the fund's investors from downturns in the market while maximising returns on market upswings.

Control Objectives:

Accepting clients

B.23 New funds are properly structured and authorised (where applicable), take account of legal and tax requirements and contain a specified investment strategy.

B.24 Funds are set up and administered in accordance with the Fund's constitutional agreements and applicable regulations.

B.23 Prospective investors are assessed for suitability and complete relevant legal documentation prior to investment activity.

¹⁴⁷ Include control objectives for monitoring subservice organisations when the carve-out method is used to deal with subservice organisations.

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Comment [CG77]: Only relevant where a controls report is available from the subservice organisation.

Comment [CG78]: PAG to advise on control objectives.

Comment [C79]: PAG to consider whether to leave this out, incorporate in asset management objectives or list separately as shown. Objectives from AAF0106 2011 version.

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Comment [C80]: Covered by B1

Comment [CG81]: James Oliver suggested too broad as captures AML/CTF controls.

Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 4 Appendix 1, Section B

Authorising and processing transactions

- B.25** Complete and authorised agreements with counterparties (e.g. prime broker, administrator and custodian) are operative prior to initiating investment activity
- B.26** Investor subscriptions and redemptions are processed and recorded completely and accurately; redemptions are appropriately authorised
- B.27** Where quantitative trading strategies are adopted, the design and review of such strategies / models is monitored.
- B.28** Trading activity is only undertaken within the parameters of the Fund's investment strategy (e.g., limits on leverage, concentration risk, counterparty risk, type of investments).

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Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*

Appendix 4 Appendix 1, Section B

Maintaining financial and other records

B.29 Where reliable market price data is not available hard-to-value assets are valued using consistent valuation arrangements which mitigate conflicts of interest and are disclosed to investors.

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B.30 Reconciliations are undertaken between the prime broker, the administrator and the custodian for daily trades, investment positions, settlements and cash in a timely and accurate manner.

Comment [C82]: Covered by B12?

B.31 Lock-up periods, redemption gates and penalties are accurately applied in accordance with the Fund's constitutional agreements.

Comment [C83]: Covered by B13?

B.32 Where hard-to-value assets are placed in side pockets, they are appropriately identified and recorded in accordance with the Fund's constitutional agreements.

Comment [C84]: Covered by B14?

Safeguarding assets

B.33 Liquidity management is undertaken with due regard to investor subscriptions and redemptions, margin calls, terms and duration of bank borrowing and the payments due to creditors

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Monitoring compliance

B.34 Portfolio liquidity is monitored in accordance with client instruction in order to meet redemption requests in a timely manner.

B.35 Levels of leverage, margin calls, counterparty exposures and potential events of default are monitored.

Comment [C85]: Broadly covered by B16.

Reporting to investors

B.36 Reporting to investors in respect of fund net asset values, portfolio transactions, investment holdings, performance, commission and voting and other information agreed with investors is complete and accurate and provided with required timescales.

Comment [C86]: PAG to consider whether to leave this out, incorporate in asset management objectives or list separately as shown. AAF0106 2011 version.

Asset Management - Private Equity

Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 4 Appendix 1, Section B

Scope:

“Private Equity” is an asset class that is not publicly traded on a stock exchange and consists of investors and funds that make investments directly into private companies or conduct buyouts of public companies that result in a delisting of public company.

Comment [C87]: Shares in a company

Comment [AC88]: obtained from http://en.wikipedia.org/wiki/Private_equity
<http://www.investopedia.com/terms/p/privateequity.asp>

Control Objectives:

Accepting clients

- B.37** New funds are properly developed and authorised, take account of legal and tax requirements and contain a specified investment strategy.
- B.38** Prospective investors are assessed for suitability and complete relevant legal documentation prior to investment activity.
- B.39** Investment guidelines and restrictions are established and updated as required.

Authorising and processing investment transactions

- B.40** Investment decisions are researched, authorised and implemented in accordance with the investment strategy and due diligence and abort costs are controlled.
- B.41** Investment transactions and commitments are properly authorised and executed in a timely and accurate manner (this is intended to include acquisitions and exits).
- B.20B.42** Investment and related cash transactions are completely and accurately recorded and communicated for settlement in a timely manner.
- B.43** Rights and obligation arising from an exit are recorded and monitored

Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*

Appendix 4 Appendix 1, Section B

B.44 Investment allocations are made in accordance with the terms of the partnership or supporting agreements

Maintaining financial and other records

B.45 Investment income and related tax are accurately recorded in the proper period

B.46 Investments are valued in accordance with relevant industry guidelines

B.47 Investor drawdowns and distributions are authorised, processed and recorded completely and accurately

B.48 Investment management fees, carried interest payments and expenses of the funds are authorised, accurately calculated, recorded and allocated in accordance with the fund's legal documentation

B.49 Cash and investment positions are completely and accurately recorded and reconciled to third party data or documents of title held

Safeguarding assets

B.50 Investments are properly registered and securely held.

B.51 Uninvested cash is managed with due regard to diversification of risk and security of funds.

Monitoring compliance

B.52 Investment performance is monitored.

B.53 Outsourced activities are properly managed and monitored and conflicts of interest identified to clients.

Reporting to investors

B.54 Investor reporting is complete and accurate and provided within required timescales.

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B.55 Reports and accounts are prepared having regard to disclosure requirements and submitted in accordance with timescales determined by applicable law and regulations and are distributed to investors on a timely basis

Information technology

G.1 – G.14

Draft

[Appendix 4](#)[Appendix 1, Section B](#)

C. Property Management

Definition:

“Property management” is the performance of the following functions:

- Initiating and executing property purchase and sale transactions either by specific direction from the [clientcustomer](#) or under discretionary authority granted by the [clientcustomer](#).
- Determining whether transactions comply with guidelines and restrictions.
- Reconciling records of transactions for each [clientcustomer](#), to statements received from the custodian.
- Reporting to the [clientcustomer](#) on performance and activities.

Control Objectives:

Accepting [clientcustomers](#)

- C.1 Accounts are set up completely and accurately in accordance with [clientcustomer](#) agreements and applicable regulations, [if any](#).
- C.2 Complete and authorised [clientcustomer](#) agreements are established prior to initiating investment activity.
- C.3 Investment guidelines and restrictions are established and agreed prior to investment management activity.
- C.4 Pooled fund unitholder activity is recorded completely, accurately and in a timely manner.

Authorising and processing transactions

- C.5 Investment decisions are properly formulated in accordance with investment guidelines, authorised, implemented and reviewed on a timely basis.

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Appendix 4 Appendix 1, Section B

- C.6 Property developments are only undertaken in accordance with acceptable risk criteria.
- C.7 Costs associated with buying and selling properties are authorised and recorded accurately.
- C.8 Tenants' covenants and lease conditions are assessed and authorised on a timely basis.
- C.9 Property and related cash transactions are completely and accurately recorded and settled in a timely manner.
- C.10 Rental income and service charges are accurately calculated and recorded on a timely basis.
- C.11 ~~Client~~Customer new monies and withdrawals are authorised, processed and recorded completely and accurately.

Maintaining financial and other records

- C.12 Accounts are administered in accordance with ~~client~~customer agreements and applicable regulations.
- C.13 Changes to significant non-monetary ~~client~~customer data (for example, address changes and changes in allocation instructions) are authorised and correctly recorded on a timely basis.
- C.14 Complete and accurate records of each property are maintained.
- C.15 Valuations are obtained at regular intervals from independent external valuers.
- C.16 Income entitlements are received in full, wherever possible, and expenses, both recoverable and irrecoverable, are controlled.
- C.17 Property management fees and other account expenses are accurately calculated and recorded.

Comment [CG89]: PwC comment letter

Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*

Appendix 4~~Appendix 1, Section B~~

- C.18 Rents are monitored and rent reviews are recorded promptly and accurately.
- C.19 Pooled funds are priced and administered accurately and in a timely manner.

Safeguarding assets

- C.20 Properties purchased are of good and marketable title.
- C.21 Title deeds are safeguarded from loss, misappropriation and unauthorised use.
- C.22 Uninvested cash is managed with due regard to diversification of risk and security of funds.
- C.23 Risks arising from investing in property are insured where this is economic to the interests of owners (for example consider claims ~~et~~etc. arising from the public where large shopping malls are owned).

Monitoring compliance

- C.24 ~~Client~~Customer portfolios are managed in accordance with investment objectives, monitored for compliance with investment guidelines and restrictions and performance is measured.
- C.25 ~~Outsourced activities~~Property management services provided are approved and managed in accordance with the requirements of the ~~client~~customer agreement.
- C.26 Transaction errors (including guideline breaches) are rectified promptly and ~~client~~customers treated fairly.

Reporting to ~~client~~customers

- C.27 ~~Client~~Customer reporting in respect of property transactions, holdings and performance is complete and accurate and provided within required timescales.

Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 4 Appendix 1, Section B

Monitoring Subservice Organisations¹⁴⁸

C.28 The controls at subservice organisations over property management of XYZ Service Organisation’s customer’s property are operating effectively throughout the period.

◆C.29 ..

Information technology

G.1 – G.14

Draft

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Comment [CG90]: Only relevant where a controls report is available from the subservice organisation.

Comment [CG91]: PAG to advise on control objectives.

¹⁴⁸ Include control objectives for monitoring subservice organisations when the carve -out method is used to deal with subservice organisations..

D. Superannuation Member Administration

Definition:

“Superannuation member administration” is the performance of the following functions:

- Maintaining membership data, including the addition of new members and updating existing members’ data.
- Receiving contributions and transfers in from employers, members or government and allocating to members accounts.
- Calculation and payment of benefits to members, beneficiaries, other superannuation funds and/or other third parties where applicable (e.g. financial hardship).
- Receiving instructions from members and trustees regarding investment elections and investment switch requests, and communicating these instructions to other service organisations responsible for executing these instructions.
- Processing deductions from member accounts, including insurance premiums, administration fees and contribution tax, and remittance of expenses and tax to appropriate parties.
- Liaison with insurers regarding insurance claims, receipt of insurance proceeds and payment of death, TPD and income protection benefits.
- Allocation of fund earnings to members’ accounts, through application of crediting rate or adjustment of unit prices.
- Annual review of fund, including roll up of members’ accounts and calculation of vested benefits/accrued benefits and annual reporting to members and trustees.

Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 4 Appendix 1, Section B

Where the service organisation maintains financial records in addition to member records, the control objectives in Appendix 2 Section E Investment Administration will be applicable.

Control Objectives:

Accepting clientcustomers

- E.1 Accounts for superannuation funds and sub-plans are set up completely and accurately in accordance with clientcustomer agreements and applicable regulations, if any.
- E.2 Member accounts are set up completely and accurately in accordance with fund rules and individual investment and insurance elections.

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Authorising and processing transactions

- E.3 Contributions and transfers in are correctly classified and allocated to members' accounts, processed accurately and on a timely basis.
- E.4 Superannuation benefits payable and transfer values are calculated and recorded accurately and are paid on a timely basis.
- E.5 Instructions from members and trustees regarding investment elections and investment switch requests are actioned and accurately processed.
- E.6 Deductions from member accounts, including insurance premiums, administration fees and contribution tax, are calculated in accordance with member elections, fund rules, relevant legislation and regulations and accurately recorded.
- E.7 Expenses and tax deducted are remitted to the appropriate parties.

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Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 4 Appendix 1, Section B

Maintaining member records

- E.8** Changes to ~~members~~members' significant standing data (for example, address changes and changes in allocation instructions) are authorised and correctly recorded on a timely basis.
- E.9** Investment earnings are accurately allocated (through crediting rates or unit pricing) to member accounts and in accordance with trustee directions and fund rules.

Comment [CG92]: PwC comment letter

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Safeguarding assets

- E.10** Superannuation fund, sub-plan and member data is appropriately stored to ensure security and protection from unauthorised use.

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Monitoring compliance

- E.11** Contributions are received in accordance with fund rules and relevant legislation.
- E.12** Transaction errors are identified, notified to members or trustees in accordance with clientcustomer agreements and rectified promptly if required.
- E.13** Benefits payable and transfer values are calculated and paid in accordance with superannuation fund rules, relevant legislation and regulations.

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- E.14** ~~Outsourced activities~~Superannuation member administration provided to customers ~~are~~is approved and managed in accordance with the requirements of the clientcustomer agreement.

Reporting to clientcustomers

- E.15** Annual member statements issued to members are accurate and complete and distributed on a timely basis.

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Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 4 Appendix 1, Section B

Monitoring Subservice Organisations¹⁴⁹

E.16 The controls at subservice organisations over superannuation member administration of XYZ Service Organisation's customer's superannuation scheme are operating effectively throughout the period.

E.15E.17 ...

Information technology

G.1 – G.14

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Comment [CG93]: Only relevant where a controls report is available from the subservice organisation.

Comment [CG94]: PAG to advise on control objectives.

¹⁴⁹ Include control objectives for monitoring subservice organisations when the carve -out method is used to deal with subservice organisations.

Appendix 4 Appendix 1, Section B

E: Investment Administration

Definition:

“Investment Administration” is the performance of the following functions:

- Maintaining records of securities, cash, and other portfolio assets and liabilities based on information received from the Trustee/Responsible Entity, investment manager, registrar, custodian and others (as applicable).
- Valuations of portfolio assets and liabilities, determining net asset values and reporting thereof.
- Periodic reporting of performance and investment compliance to the Trustee/Responsible Entity, investment manager, and others (as applicable).
- Periodic financial reporting.

Unit pricing and crediting rate calculations are also a function performed in investment administration, for which the control objectives include the accurate calculation of daily or other periodic unit prices or crediting rates with detailed controls allied to that objective. This control objective has not been listed below, because it would not ordinarily be necessary to test these detailed controls in obtaining assurance over the operating effectiveness of controls over the investment administration services provided by a service organisation for the purpose of the audit of user entities’ financial reports.

Control Objectives:

Accepting clientcustomers

- E.1** Accounts are set up completely and accurately in accordance with clientcustomer agreements and applicable regulations, if any.
- E.2** Complete and authorised clientcustomer agreements are established prior to initiating accounting activity.

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Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*

Appendix 4 Appendix 1, Section B

Authorising and processing transactions

~~E.3 Portfolio transactions are recorded completely, accurately and on a timely basis.~~

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~~E.4E.3 Corporate actions are actioned, processed and recorded accurately and on a timely basis.~~

Comment [C95]: Moved down

~~E.5 Expenses are appropriately authorised and recorded in accordance with the service level agreement and/or clientcustomer instructions, on a timely basis.~~

Comment [C96]: Moved down

Maintaining financial and other records

~~E.6E.4 Accounts are administered in accordance with clientcustomer agreements.~~

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~~E.7E.5 Changes to significant non-monetary static data (for example, address changes and changes in allocation instructions) are authorised and correctly recorded on a timely basis.~~

Comment [CG97]: PwC comment letter

~~E.8E.6 Investment income and related tax are accurately calculated and recorded on a timely basis.~~

~~E.9E.7 Investments are valued in accordance with regulatory requirements, clientcustomer agreements or industry standard, as applicable.~~

~~E.10 Share/unit activity is recorded completely, accurately and positions are regularly reconciled to data provided by registry.~~

~~E.8 Cash and securities positions are completely and accurately recorded and reconciled to third party data.~~

~~E.9 Expenses are appropriately authorised and recorded in accordance with the service level agreement and/or customer instructions on a timely basis.~~

~~E.10 Distribution rates are accurately calculated and authorised and distribution amounts are recorded in a timely manner.~~

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E.11 Issue and cancellations of shares/units are recorded completely and accurately, and positions are regularly reconciled.

E.12 Reconciliations between different systems, including the investment ledger, general ledger and administration system, are performed on a timely basis.

Monitoring compliance

E.13 Errors are identified, notified to clientcustomers and rectified promptly in accordance with clientcustomer agreements.

E.14 Outsourced Investment administration services provided to customers activities are approved and managed in accordance with the requirements of the clientcustomer agreement and conflicts of interest identified to clients.

E.14E.15 Pricing and distribution rate errors are rectified in a timely manner.

Reporting to clientcustomers

E.15E.16 Periodic reports to clientcustomers, including calculation of net asset value if required, are accurate and complete and distributed on a timely basis.

E.16 Annual reports and accounts are prepared in accordance with applicable laws and regulations.

Taxation

E.17 Tax Policy is updated and reviewed on a timely basis.

E.17E.18 The general ledger or investment system is based on complete and accurate tax information (based on all in accordance with instructions or advice received from the clientcustomer and/or their approved advisors) prior to processing tax information.

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Comment [CG98]: EY suggested objective.

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Comment [CG99]: EY suggested amendment.

Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 4 Appendix 1, Section B

E.18 — Distribution income receivable by customers is complete and accurate and is reported to client customers based on tax policy and underlying tax records on a timely basis.

Comment [CG100]: Replace with “components”? EY suggestion.

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E.19 — Capital gains on securities are calculated completely and accurately.

Comment [CG101]: See EY suggestions/comment

Comment [CG102]: EY suggestion.

E.19

E.20 — Tax information components and attributes used in the preparation of the tax computation are complete and accurate and calculated on a timely basis in accordance with tax policy and/or client instructions (including: capital gains, TOFA, withholding tax, foreign income fund amounts, current and prior year tax losses, current and prior year timing differences, Section 115-45 securities, franking credits, foreign tax credits, Division 16E amounts) is complete and accurate and calculated on a timely basis.

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Comment [CG103]: PwC comment letter 2009

E.20 e

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E.21 — Current and deferred tax balances, are calculated for the financial statements, are materially correct completely, accurately, are valid and processed in a timely manner (where appropriate) in accordance with tax policy.

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E.22 — Assets are completely and accurately classified as held on either a capital or a revenue account (where appropriate) in accordance with client instructions or tax policy.

Comment [CG104]: EY suggestion – should this still be stated in terms of assertions rather than “materially correct”?

E.22 — Tax journals are valid and are processed completely, accurately, and in a timely manner.

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Monitoring Subservice Organisations¹⁵⁰

Comment [CG105]: EY suggest that covered by E21.

¹⁵⁰ Include control objectives for monitoring subservice organisations when the carve -out method is used to deal with subservice organisations.

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E.23 The controls at subservice organisations over investment administration of XYZ Service Organisation’s customer’s investments are operating effectively throughout the period.

E.23E.24 [..]

Information technology

G.1 – G.14

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Comment [CG106]: Only relevant where a controls report is available from the sub-service organisation.

Comment [CG107]: PAG to advise on control objectives.

[Appendix 4](#)~~Appendix 1, Section B~~

F. Registry

Definition:

“Registry” is the performance of the following functions:

- Maintaining records of the name and address of each shareholder or unitholder [investing in the customer/issuer](#), the amount of shares or units [in the customer](#) owned by each share/unitholder, any reference corresponding to a share/unit holder’s positions, the issue date of the share/unit, and the cancellation date of the share/unit (if applicable).
- Recording the amount of shares/units purchased, redeemed, switched, transferred or reinvested by a shareholder or unitholder on the issuer’s books upon receipt of a validated request.
- Recording changes to share/unit holdings as a consequence of a corporate action upon receipt of a validated instruction.
- Monitoring the issuance of shares/units in an issue to prevent the unauthorised issuance of shares/units.
- Ensuring that any issuance of shares/units will not cause the authorised number of shares/units in an issue to be exceeded and that the number of new shares/units represented corresponds to the number of cancelled shares/units.
- Performing stakeholder meeting and voting processes such as document design and print procurement, postage, other distribution of documentation and reporting.

Control Objectives:

Accepting ~~client~~[customer](#)s

- F.1 Accounts are set up completely and accurately in accordance with ~~client~~[customer/issuers](#) agreements.
- F.2 Complete and authorised ~~client~~[customer](#) agreements are established prior to initiating accounting activity.

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F.3 ~~Pooled fund unit holder activity is clearly established and recorded completely, accurately and in a timely manner.~~

Authorising and processing transactions

F.3 ~~New share/unitholder activity is clearly established and recorded completely, accurately and in a timely manner.~~

F.4 ~~Documents~~ Share/unitholder applications, redemptions and switches received are checked, sorted and distributed for processing in a timely manner.

F.5 ~~Share/unitholder Investor~~ transactions and adjustments are authorised, processed accurately, completely and in a timely manner.

F.6 Cash receipts are processed accurately and banked promptly.

F.7 Cheques and confirmation letters issued are accurately generated, matched and authorised prior to despatch.

F.8 ~~Where authorised capital is fixed, S~~ shares/units issued do not exceed the authorised number of shares in an issue and the number of new shares/units represented corresponds to the number of cancelled shares/units.

Maintaining financial and other records

F.9 Accounts are administered in accordance with ~~client~~ customer agreements.

F.10 Changes to ~~significant~~ non-monetary ~~client~~ share/unitholder data (for example, address changes and changes in allocation instructions) are authorised and correctly recorded on a timely basis.

F.11 ~~Registrar records accurately reflect shares, units and cash held by third parties.~~

F.12 F.11 Share/unit activity is recorded completely, accurately and positions are regularly reconciled.

Comment [CG108]: PwC comment letter – delete; LMS provided amendment which was accepted but moved as does not relate to accepting customers.

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Comment [CG109]: PwC comment letter – delete; LMS provided amendment which was accepted.

Comment [CG110]: Confirm wording with PAG.

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Comment [CG111]: PwC comment letter

Comment [CG112]: PwC comment letter 2009 suggests deleting – PAG to confirm if needed in an amended form.

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Appendix 4 Appendix 1, Section B

F.13F.12 Pooled funds are priced and administered accurately and in a timely manner in accordance with unitholders' agreements.

Comment [CG113]: Check wording with PAG

Safeguarding assets

F.14F.13 Lost and stolen certificates are recorded in a timely manner.

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Monitoring compliance

F.15F.14 Transaction errors are identified, notified to ~~client~~ customers and share/unit holders in accordance with ~~client~~ customer agreements and rectified if necessary.

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F.16F.15 ~~Outsourced activities~~ Registry services provided to customers are approved and managed in accordance with the requirements of the ~~client~~ customer agreement.

Reporting to ~~client~~ customers

F.17F.16 ~~Client~~ Customer reporting is complete and accurate and processed within required timescales.

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Taxation

F.18F.17 Distribution information is completely and accurately processed in the Registry system.

Comment [CG114]: Issues raised in PwC comment letters based on this being income not information – check with PAG if meaning clear enough.

F.19F.18 Distribution payments are complete, accurate and processed in a timely manner.

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F.19 Withholding tax for non-residents, or where no TFN/ABN has been provided, is calculated completely, accurately and on a timely basis.

Monitoring Subservice Organisations¹⁵¹

¹⁵¹ Include control objectives for monitoring subservice organisations when the carve -out method is used to deal with subservice organisations.

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F.20 The controls at subservice organisations over registry of XYZ the service organisation’s share/unitholders are operating effectively throughout the period.

F.20F.21 [..]

Information technology

G.1 – G.14

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Comment [CG115]: Only relevant where a controls report is available from the sub-service organisation.

Comment [CG116]: PAG to advise on control objectives.

[Appendix 4](#)[Appendix 1, Section B](#)

G. Information Technology

Scope:

Information technology (IT) control objectives are applicable to all investment management services as IT is integral to providing those services. The IT control objectives are addressed for each investment management service reported on, in addition to the specific control objectives that are provided for each investment management service in this Appendix.

Control Objectives:

Restricting access to systems and data

~~G.1 Client data is appropriately stored to ensure security and protection from unauthorised use.~~

G.2G.1 Physical access to computer networks, equipment, storage media and program documentation is restricted to authorised individuals.

G.3G.2 Logical access to computer systems, programs, master data, customer data, transaction data and parameters, including access by administrators to applications, databases, systems and networks, is restricted to authorised individuals via information security tools and techniques.

G.4G.3 Segregation of incompatible duties is defined, implemented and enforced by logical security controls in accordance with job roles.

Authorising and processing transactions

G.5G.4 IT processing is authorised and scheduled appropriately and exceptions are identified and resolved in a timely manner.

Safeguarding assets

G.6G.5 Appropriate measures, including firewalls and anti-virus software, are implemented to counter the threat from malicious electronic attack.

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Comment [CG117]: Covered by revised G.2

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Appendix 4 Appendix 1, Section B

G.7G.6 The physical IT equipment is maintained in a controlled environment.

Maintaining and developing systems hardware and software

G.8G.7 Development and implementation of new systems, applications and software, and changes to existing systems, applications and software, are authorised, tested, approved, implemented and documented.

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G.9G.8 Data migration or modification is authorised, tested and, once performed, reconciled back to the source data.

~~**G.10** Batch processing is complete, accurate and timely.~~

Comment [CG118]: Covered by G4

Recovering from processing interruptions

G.11G.9 Data and systems are backed up regularly, retained offsite and regularly tested for recoverability.

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G.12G.10 IT hardware and software issues are monitored and resolved in a timely manner.

G.13G.11 Business and information systems recovery plans are documented, approved, tested and maintained.

Monitoring compliance

G.12 ~~Outsourced activities~~ Information technology services provided to customers are approved, ~~and~~ managed and performance thresholds met in accordance with the requirements of the ~~client~~ customer agreement.

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Monitoring Subservice Organisations¹⁵²

¹⁵² ~~Include~~ Include control objectives for monitoring subservice organisations when the carve-out method is used to deal with subservice organisations.

Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 4 ~~Appendix 1, Section B~~

A23. The controls at subservice organisations over information technology for XYZ Service Organisation’s investment management services are operating effectively throughout the period.

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A24.

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Comment [CG119]: Only relevant where a controls report is available from the sub-service organisation.

Comment [CG120]: PAG to advise on control objectives.

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Appendix 4 Appendix 1, Section B

Section C: Example Appendix 4

(Ref: Para. A)

**SERVICE AUDITOR'S TYPE 2 Service Auditor's Type B
Controls ASSURANCE REPORT Report**

**Independent Service Auditor's Assurance Report on the Description of
Controls over [Investment Management Services], their Design and
Operating Effectiveness**

To: the [management/those charged with governance] of XYZ [Service
Organisation]

Scope

Report on the Controls over [Investment Management Services]

We have been engaged to report on XYZ Service Organisation's description at pages [bb-cc] of its We have conducted an assurance engagement to express an opinion on the accuracy of [service organisation]'s description of controls over the [specify investment management services: custody, asset management, property management, superannuation member administration, investment administration or registry] services system provided to XYZ [service organisation]'s client customers throughout the period [date] to [date] (the description), ("the controls"), and on the design, implementation and operating effectiveness of those controls related to achieving the control objectives, stated in the description.¹⁵³ described in the accompanying [management/those charged with governance] of the [service organisation]'s report ("the [service organisation] report") set out on pages [] to [] for the [specify reporting period].¹⁵⁴

This report covers solely the controls of [service organisation] as described in your report as at [date]. Controls are policies and procedures designed to provide reasonable assurance about the achievement of the [service

¹⁵³ If some elements of the description are not included in the scope of the engagement, this is made clear in the assurance report.

¹⁵⁴ If some elements of the description are not included in the scope of the engagement, this is made clear in the assurance report.

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Comment [CHG121]: Align with ASAE 3402 Appendix 2

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Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 4 Appendix 1, Section B

organisation]’s objectives in the provision of [investment management services] by [service organisation].

XYZ Service Organisation’s Management’s Responsibilities

[Management/those charged with governance] of XYZ [Service Organisation] are is responsible for: preparing the description and accompanying assertion at page [aa], including the completeness, accuracy and method of presentation of the description and assertion; providing the services covered by the description; stating the identification of controls objectives relevant to the financial reporting of clients to whom [investment management services] are provided; the and designing, implementation implementing and effectively operation operating of the controls at [service organisation] to provide reasonable assurance that to achieve the stated control objectives are achieved; the description of the control objectives and allied controls and the assertions about the controls set out in the [service organisation] report.

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Service Auditor’s Responsibilities

Our responsibility is to form an independent express an opinion, based on the assurance work carried out in relation to the controls over on XYZ [Service Organisation]’s description and on the design and operation of controls related to the control objectives stated in that description, including the minimum controls objectives for [investment management service/s] from Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services, based on our procedures. [investment management service] services carried out at [the specified business units of] [service organisation] [located at []] as described in the [service organisation] report and report this to the [management/those charged with governance] of [service organisation].

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Comment [C122]: Confirm that ref to GS 007 appropriate.

We conducted our engagement in accordance with Standards on Assurance Engagements ASAE 3402 Assurance Reports on Controls at a Service Organisation, issued by the Auditing and Assurance Standards Board. That standard requires that we comply with relevant ethical requirements and plan and perform our procedures to obtain reasonable assurance about whether, in all material respects, the description is fairly presented and the controls are suitably designed and operating effectively.

Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 4 Appendix 1, Section B

An assurance engagement to report on the description, design and operating effectiveness of controls at a service organisation involves performing procedures to obtain evidence about the disclosures in the service organisation's description of its system, and the design and operating effectiveness of controls. The procedures selected depend on our judgement, including the assessment of the risks that the description is not fairly presented, and that controls are not suitably designed or operating effectively. Our procedures included testing the operating effectiveness of those controls that we consider necessary to provide reasonable assurance that the control objectives stated in the description were achieved. An assurance engagement of this type also includes evaluating the overall presentation of the description, the suitability of the objectives stated therein, and the suitability of the criteria specified by the service organisation and described at page [aa].

Our work was based upon obtaining an understanding of the controls as described in pages [] to [] of the [service organisation] report and evaluating [management/those charged with governance]'s assertions as described on pages [] to [] in the same report to obtain reasonable assurance so as to form our opinion. Our work also included tests of controls, to obtain evidence about their effectiveness in meeting the related control objectives. The nature, timing and extent of the tests we applied are detailed on pages [] to []. We have not evaluated [specify any part of the service organisation's report not covered by the auditor's opinion] which are included in the [service organisation] report and consequently we do not express an opinion on those parts of the report.

Our tests are related to [service organisation]'s [investment management service] services as a whole rather than performed to meet the needs of any particular client. The relative effectiveness and significance of controls over [investment management service] services at [service organisation] and their effect on assessments of control risk at clients may be dependent on their interaction with the controls and other factors present at individual clients. We have performed no procedures to evaluate the effectiveness of controls at, or as they relate to, individual clients and no opinion is expressed on them.

Use of report

This report is made solely for the use of the [management/those charged with governance] of [service organisation] and solely for the purpose of reporting

Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*

Appendix 4Appendix 1, Section B

on the controls of [service organisation], in accordance with the terms of our engagement letter dated [date].

Our work has been undertaken so that we may report to the [management/those charged with governance] those matters that we have agreed to state to them in this report and for no other purpose. Our report must not be recited or referred to in whole or in part in any other document nor made available, copied or recited to any other party, in any circumstances, without our express prior written permission.

We permit the disclosure of this report, in full only, by the [management/those charged with governance] at their discretion to the [Trustee/Responsible Entity] of clients of [service organisation] using [service organisation]'s [investment management services] ("clients"), and to the auditors of such clients, to enable clients and their auditors to verify that an assurance report has been commissioned by the [management/those charged with governance] of [service organisation] and issued in connection with the controls of [service organisation], and without assuming or accepting any responsibility or liability to clients or their auditors on our part.

To the extent permitted by law, we do not accept or assume responsibility to anyone other than the [management/those charged with governance] of [service organisation] as a body and [service organisation] for our work, for this report or for the conclusions we have formed.⁴⁵⁵

Inherent limitations

A reasonable assurance engagement is not designed to detect all weaknesses in controls as it is not performed continuously throughout the period and the tests performed are on a sample basis.

Controls designed to address specified control objectives are subject to inherent limitations and, accordingly, errors or irregularities may occur and not be detected. Such controls cannot guarantee protection against (among other things) fraud or collusion especially on the part of those holding positions of authority or trust. Furthermore, our conclusion is based on

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⁴⁵⁵— Use of the report & liability limitation: insert additional/alternative wording, if any, required to reflect any liability arrangements agreed between the service auditor, the service organisation and other users, including confirmation of the purpose for which the service auditor's report has been prepared and the basis on which other parties may use the report.

Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*

Appendix 4 Appendix 1, Section B

~~historical information and any projection of the evaluation of control procedures to future periods is subject to the risk that the procedures may become inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate.~~

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our ~~assurance~~ opinion.

Limitations of Controls at a Service Organisation

XYZ Service Organisation's description is prepared to meet the common needs of a broad range of customers and their auditors and may not, therefore, include every aspect of the system that each individual customer may consider important in its own particular environment. Also, because of their nature, controls at a service organisation may not prevent or detect all errors or omissions in processing or reporting transactions. Also, the projection of any evaluation of effectiveness to future periods is subject to the risk that controls at a service organisation may become inadequate or fail.

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Auditor's Opinion

~~In~~ Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion are those described at page [aa]. In our opinion, in all material respects:

~~The description fairly presents the [investment management services] system as designed and implemented throughout the period from [date] to [date];~~

~~The controls related to the control objectives stated in the description were suitably designed throughout the period from [date] to [date]; and~~

~~The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period from [date] to [date].~~

~~, in all material respects, the accompanying report by [management/those charged with governance] on pages [] to [] describes accurately the controls over [investment management services] which were in place throughout the [year or other period] to [date];~~

~~the controls described were suitably designed to achieve the specified control objectives¹⁵⁶;~~

~~the controls were implemented; and~~

~~the controls were operating effectively throughout the [year or other period] to [date].~~

Description of Tests of Controls

~~The specific controls tested and the nature, timing and results of those tests are listed on pages [yy-zz].~~

Intended Users and Purpose

¹⁵⁶ Insert "if clients applied the complementary controls identified" where there are complementary internal controls which are required to be in place at clients in order for the service organisation's controls to be effective in meeting their objective.

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This report and the description of tests of controls on pages [yy-zz] are intended only for customers who have used XYZ Service Organisation's [type or name of] system, and their auditors, who have a sufficient understanding to consider it, along with other information including information about controls operated by customers themselves, when assessing the risks of material misstatements of customers' financial reports/statements.

[Service Auditor's signature]

[Date of the service auditor's assurance report]

[Service Auditor's address]

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Appendix 3, Section A

Section D: Appendix 5

(Ref: Para.)

SERVICE AUDITOR'S DESCRIPTION OF THE NATURE, TIMING AND EXTENT OF TESTS APPLIED TO CONTROLS

The description does not duplicate the service auditor's detailed assurance programme, since that would provide more than the appropriate level of detail. There is no standardised format for presenting a description of tests applied to controls, however the following elements are ordinarily included in the description:

1. Cross reference to the control objectives and allied controls¹⁵⁷ intended to achieve those objectives described in the Service Organisation's description of its system Controls Report.
2. Assessment of the accuracy-fair presentation of the description ~~and the suitability of the design~~, including:
 - (e)(b) identification of any inadequacies, omissions or inaccuracies in the description of control objectives;
 - (e)(c) identification of any inaccuracies in the description of controls as designed and implemented; ~~and~~
- (e)3. Assessment of the suitability of the design, including identification of any inadequacies in the design of the controls to achieve their stated objectives.
3. ~~Tests of implementation—tests conducted to determine whether the controls are implemented as described and the results of those tests, which may be described in combination with tests of operating effectiveness.~~
4. Tests of operating effectiveness, including:

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¹⁵⁷ If applicable, complementary user entity controls would also be described.

Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 1, Section B5

- (a) nature, timing and extent of tests conducted including whether the whole population was tested or a sample, in this case the size of the sample;
- (b) number and nature of exceptions noted;
- (c) remedial action taken by management, if any; and
- (d) results of the tests in sufficient detail to enable user auditors to assess the effect of those tests on their assessment of control risk.

Description of nature of tests

The nature of tests carried out by the service auditor may include such procedures as enquiry, inspection, observation and re-performance. Examples of descriptions of these procedures, which may assist the service auditor in describing tests of controls are set out below.

1. Enquiry:

- Enquired of appropriate XYZ {Sservice Oorganisation} personnel.
- Conducted enquiries seeking relevant information or representation from personnel were performed to obtain, among other things:
 - Knowledge, additional information and affirmation regarding the control of procedures.
 - Corroborating evidence of the controls.

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2. Inspection:

- Inspected documents and records indicating performance of the controls. This included, among other things:

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Appendix 1, Section B5

- Inspection of reconciliations and management reports that age and/or quantify reconciling items to assess whether balances and reconciling items appear to be properly monitored, controlled and resolved on a timely basis, as required by the related control.
 - Examination of source documentation and authorisations related to selected transactions processed.
 - Examination of documents or records for evidence of performance, such as the existence of initials or signatures.
 - Inspection of XYZ's service organisation's systems documentation, such as operations, manuals, flow charts and job descriptions.
3. Observation:
- Observed the application or existence of specific controls as represented.
4. Re-performance:
- Re-performed the control or processing application of the controls to check the accuracy of their operation. This included, among other things:
 - Obtaining evidence of the arithmetical accuracy and correct processing of transactions by performing independent calculations.
 - Re-performing the matching of various system records by independently matching the same records and comparing reconciling items to

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Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*

Appendix 1, ~~Section B5~~

reconciliations prepared by ~~XYZ the~~ Service Organisation.

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Appendix 3, Section A

Appendix 63

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SPECIAL PURPOSE ILLUSTRATIONS OF SERVICE AUDITOR'S REPORTS ON FINANCIAL INFORMATION

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The following example ~~Special Purpose~~Service Auditor's Reports are for use as a guide only, in conjunction with the considerations described in GS 007, and will need to be varied according to individual requirements and circumstances.

Section A: Example 1: Service Auditor's Report on Specified Assertions

Comment [CHG123]: Align with ASA 805 Appendix 2

INDEPENDENT AUDITOR'S REPORT

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To [those charged with governance] of ~~[service organisation]~~ XYZ Service Organisation regarding [user entity]

Report on Specified Assertions of Assets [and liabilities or transactions] in the Statement¹⁵⁸

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We have audited the [specify assertions audited: for transactions or events: occurrence, completeness, accuracy, cut-off and classification; for balances: existence, rights and obligations, completeness or valuation and allocation; or for presentation and disclosure: occurrence, rights and obligations, completeness, classification and understandability and accuracy and valuation] of the assets [and liabilities or transactions] of the accompanying [title of ~~special purpose~~ financial ~~report~~statement] ("the Statement"), which comprises the [statement of assets and liabilities] as at [date], and the [statement of transactions] for the year then ended, concerning the assets [and liabilities or transactions] of [user entity]¹⁵⁹ for which ~~[service]~~XYZ Service

¹⁵⁸ The subheading "Report on the Statement" is unnecessary in circumstances when the second subheading "Report on Other Legal and Regulatory Requirements" is not applicable.

¹⁵⁹ Where the assets are held in the name of a nominee holding company insert "held in the name of [nominee holding company]".

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Appendix 1, [Section B6, Example 1](#)

[Organisation](#) provides [specify investment management service provided: custody, asset management, property management, superannuation member administration, investment administration or registry] services, set out on pages [] to []¹⁶⁰. [The Statement has been prepared on the basis on accounting described in note X.](#)

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¹⁶⁰ When the auditor is aware that the Statement will be included in a document that contains other information, the auditor may consider, if the form of the presentation allows, identifying the page numbers on which the Statement is presented.

Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*

Appendix 1, [Section B6, Example 1](#)

The Management's Responsibility of ~~Those Charged with Governance~~¹⁶⁴ for the Statement

~~{XYZ Service Organisation}~~ is responsible for [investment management services] on behalf of [user entity]. ~~{Those charged with governance} of {the service organisation} are~~ Management is responsible for the preparation and fair presentation of the Statement in accordance with [specify framework applied]¹⁶² and have determined that the accounting policies described in Note X to the Statement are appropriate to meet the financial reporting requirements of the [title of contract or service level agreement] and are appropriate to meet the needs of [user entity]. ~~The {those charged with governance}'s responsibility~~ Management are also ~~includes establishing and maintaining controls relevant~~ responsible for such internal control as management determines is necessary to enable the preparation and fair presentation of the Statement ~~to provide reasonable assurance that it is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.~~

Auditor's Responsibility

Our responsibility is to express an opinion on the [specify assertions audited] in respect of the assets [and liabilities or transactions] in the accompanying Statement, based on our audit. We conducted our audit in accordance with Australian Auditing Standards. ~~The Auditing Those~~ Standards require that we comply with relevant ethical requirements ~~relating to audit engagements~~ and plan and perform the audit to obtain reasonable assurance ~~about~~ whether the assets [and liabilities or transactions] set out in the Statement are free of material misstatement in respect of the specified audit assertions.

¹⁶⁴ Insert the title of those charged with governance—e.g. directors/trustees/committees. For example, "Director's Responsibility for the Statement". Insert appropriate title, when prompted, throughout the report.

¹⁶² Insert "applicable Australian Accounting Standards" where multiple Australian Accounting Standards were applied; insert reference to specific Australian Accounting Standard where appropriate (for example: "in accordance with the measurement standards of AAS 25 *Financial Reporting by Superannuation Plans*"); or "the accounting policies described in Note X to the Statement".

Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*

Appendix 1, Section B6, Example 1

An audit of [specify assertions audited] of the assets [and liabilities or transactions] in the Statement involves performing procedures to obtain audit evidence that the assets [and liabilities or transactions] set out in the Statement [insert relevant assertion: for example for existence insert “exist as at [date]” or for valuation insert: “have been appropriately valued in accordance with [specify framework]”¹⁶³]. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the Statement in relation to the specified assertions, whether due to fraud or error. In making those risk assessments, the auditor considers ~~controls-internal control~~ relevant to XYZ [Service Organisation]’s preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of [service organisation]’s controls.¹⁶⁴ XYZ Service Organisation’s controls¹⁶⁵. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management with respect to the specified assertions.

~~We have conducted an independent audit in order to express an opinion to the [those charged with governance] of [service organisation] for the use of the [Trustee/those charged with governance] of [user entity] and their Auditor. The Statement has been prepared by [service organisation] for distribution to the [the Trustee/those charged with governance] of [user entity]. We~~

¹⁶³ Insert “applicable Australian Accounting Standards” where multiple Australian Accounting Standards were applied; insert reference to specific Australian Accounting Standard where appropriate (for example: “in accordance with the measurement standards of AAS 25 *Financial Reporting by Superannuation Plans*.”) or “the accounting policies described in Note X to the Statement”.

¹⁶⁴ ~~In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the Statement, this sentence would be worded as follows: “In making those risk assessments, the auditor considers internal control relevant to [name of service organisation]’s preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances.”~~

¹⁶⁵ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the Statement, this sentence would be worded as follows: “In making those risk assessments, the auditor considers internal control relevant to XYZ Service Organisation’s preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances.”

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Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*

Appendix 1, Section B6, Example 1

~~disclaim any assumption of responsibility for any reliance on this independent auditor's report, or on the Statement to which it relates, to any person other than the [those charged with governance] of [service organisation], [the Trustee/those charged with governance] of [user entity] and their Auditor, or if either the Statement or the auditor's report is used for any other purpose other than that for which they were prepared.~~¹⁶⁶

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

[Insert either: No uncorrected misstatements, other than amounts which are clearly trivial, have been identified during the course of our audit; Or: uncorrected misstatements, other than amounts which are clearly trivial, which, have come to our attention during the course of our audit and are not material individually or in aggregate in relation to the [specify assertions audited] in respect of the assets [and liabilities or transactions] in the accompanying Statement but may be material when aggregated with any uncorrected misstatements identified by [user entity]'s Auditor, are listed in an attachment to this report. These uncorrected misstatements do not affect our audit opinion.]

¹⁶⁶— Use of the report & liability limitation: insert additional/alternative wording, if any, required to reflect any liability arrangements agreed between the service auditor, the service organisation and other users, including confirmation of the purpose for which the service auditor's report has been prepared and the basis on which other parties may use the report.

Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 1, ~~Section B6, Example 1~~

Auditor's Opinion

In our opinion, the Statement presents fairly, in all material respects, the [specify assertions audited] of the assets [and liabilities or transactions] of [user entity], for which ~~† XYZ Service Organisation~~ provides [investment management service] services, as of [date] in accordance with [specify framework]¹⁶⁷.

Basis of Accounting and ~~Restriction on Distribution~~

~~Without modifying our opinion, we draw attention to Note X to the Statement, which describes the basis of accounting. The Statement has been prepared by XYZ Service Organisation for distribution to the [the Trustee/those charged with governance] of [user entity]. Our report is intended solely for XYZ Service Organisation, [user entity] and their auditor and should not be distributed to any other parties or used for any other purpose other than that for which they are prepared.~~¹⁶⁸

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Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor's report will vary depending on the nature of the auditor's other reporting responsibilities].

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

¹⁶⁷ Insert "applicable Australian Accounting Standards" where multiple Australian Accounting Standards were applied; insert reference to a specific Australian Accounting Standard where appropriate (for example: "the measurement standards of AAS 25 Financial Reporting by Superannuation Plans."; or "the accounting policies described in note X to the Statement").

¹⁶⁸ Use of the report & liability limitation: insert additional/alternative wording, if any, required to reflect any liability arrangements agreed between the service auditor, the service organisation and other users, including confirmation of the purpose for which the service auditor's report has been prepared and the basis on which other parties may use the report.

Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services

Appendix 1, ~~Section B6~~, Example 1

[Attachment: Uncorrected Misstatements]¹⁶⁹

In the course of conducting our audit procedures at [XYZ Service Organisation] for the purpose of reporting on [specific assertions] we have identified the following uncorrected misstatements, other than amounts which are clearly trivial, which were determined by [management/those charged with governance] to be immaterial, both individually and in aggregate, to the [specific assets and liabilities or transactions] taken as a whole. These misstatements are reported solely for the purpose of providing information to customers of [XYZ Service Organisation] and their auditors and they do not affect our audit opinion:

[Insert: List of uncorrected misstatements]

¹⁶⁹ Include attachment where uncorrected misstatements were identified.

Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*

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[Appendix 6](#)

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[Appendix 3, Section A](#)

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Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*

~~Appendix 1, Section B~~ Appendix 6, Example 2

~~Section B:~~ Example 2: Service Auditor’s Report on a Statement

Comment [CHG124]: Align with ASA 800 Appendix

INDEPENDENT AUDITOR’S REPORT

To [those charged with governance] of ~~[name of service organisation]~~ XYZ Service Organisation regarding [user entity]

Report on the Statement¹⁷⁰

We have audited the accompanying [title of financial statement] (“the Statement”),¹⁷¹ which comprises of the [statement of assets and liabilities] as at [date], and the [statement of transactions] for the year then ended, concerning the assets [and liabilities or transactions] of [user entity]¹⁷² for which ~~[XYZ Service Organisation]~~ [service organisation] provides [specify investment management services provided: custody, asset management, property management, superannuation member administration, investment administration or registry] services ~~as at [date]~~ set out on pages [] to []¹⁷³. The Statement has been prepared on the basis of accounting described in note X.

The Management’s¹⁷⁴ Responsibility of [Those Charged with Governance]¹⁷⁵ for the Statement

¹⁷⁰ The subheading “Report on the Statement” is unnecessary in circumstances when the second subheading “Report on Other Legal and Regulatory Requirements” is not applicable.

¹⁷¹ If certain assertions are specifically excluded from the audit then insert: “except for [specify assertions excluded, eg.e.g. presentation & disclosure] of the statement.”

¹⁷² Where the assets are held in the name of a nominee holding company insert “held in the name of [nominee holding company].”

¹⁷³ When the auditor is aware that the Statement will be included in a document that contains other information, the auditor may consider, if the form of the presentation allows, identifying the page numbers on which the Statement is presented.

¹⁷⁴ Insert the title of those charged with governance – e.g. directors/trustees/committees. For example, “Director’s Responsibility for the Statement”. Insert appropriate title, when prompted, throughout the report.

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¹⁷⁵ ~~Or, alternatively, insert the title of those charged with governance. For example, “Director’s Responsibility for the Statement.” Insert appropriate title, when prompted, throughout the report.~~

Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*

Appendix 1, Section B Appendix 6, Example 2

XYZ ~~{Service Organisation}~~ is responsible for [investment management services] on behalf of [user entity]. ~~{Those charged with governance} of {the service organisation} are~~ Management is responsible for the preparation and fair presentation of the Statement in accordance with [specify framework]¹⁷⁶ and have determined that the accounting policies described in Note X to the Statement are appropriate to meet the financial reporting requirements of the [title of contract or service level agreement] and are appropriate to meet the needs of [user entity]. ~~The {those charged with governance} responsibility~~ Management are also ~~includes establishing and maintaining controls relevant responsible for such internal control as management determines is necessary to enable~~ the preparation ~~and fair presentation~~ of the Statement ~~to provide reasonable assurance that it~~ that is free from material misstatement, whether due to fraud or error; ~~selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.~~

Auditor's Responsibility

Our responsibility is to express an opinion on the Statement based on our audit. No opinion is expressed as to whether the accounting policies used, as described in Note X, are appropriate to meet the needs of [user entity]. We conducted our audit in accordance with Australian Auditing Standards.

~~These Auditing~~ Those Standards require that we comply with relevant ethical requirements ~~relating to audit engagements~~ and plan and perform the audit to obtain reasonable assurance about whether the Statement is free from material misstatement.

An audit of the Statement involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to ~~{name of XYZ S} service {Organisation}'s~~ preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose

¹⁷⁶ Insert "applicable Australian Accounting Standards" where multiple Australian Accounting Standards were applied; insert reference to specific Australian Accounting Standard where appropriate (for example: "in accordance with the measurement standards of AAS 25 *Financial Reporting by Superannuation Plans*." or "the accounting policies described in Note X to the Statement").

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of expressing an opinion on the effectiveness of XYZ [service Organisation]'s controls¹⁷⁷. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management, as well as evaluating the overall presentation of the Statement.

~~An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by [those charged with governance] of [the service organisation], as well as evaluating the overall presentation of the Statement.~~

~~We have conducted an independent audit in order to express an opinion to [those charged with governance] of [service organisation] for the use of [the Trustee/those charged with governance] of [user entity] and their Auditor.~~

~~The Statement has been prepared by [service organisation] for distribution to the [Trustee/those charged with governance] of [user entity] for the purpose of fulfilling the [those charged with governance] of [the service organisation]'s financial reporting obligations under the [title of contract or service level agreement]. We disclaim any assumption of responsibility for any reliance on this independent auditor's report, or on the Statement to which it relates, to any person other than [those charged with governance] of [service organisation], [the Trustee/those charged with governance] of [user entity] and their Auditor, or if either the Statement or the auditor's report is used for any other purpose other than that for which they were prepared.¹⁷⁸~~

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

[Insert either: No uncorrected misstatements, other than amounts which are clearly trivial, have been identified during the course of our audit; Or:

¹⁷⁷ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the Statement, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to [name of service organisation]'s preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances."

¹⁷⁸ Use of the report & liability limitation: insert additional/alternative wording, if any, required to reflect any liability arrangements agreed between the service auditor, the service organisation and other users, including confirmation of the purpose for which the service auditor's report has been prepared and the basis on which other parties may use the report.

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uncorrected misstatements, other than amounts which are clearly trivial, which, have come to our attention during the course of our audit and are not material individually or in aggregate in relation to the Statement but may be material when aggregated with any uncorrected misstatements identified by [user entity]’s Auditor, are listed in an attachment to this report. These uncorrected misstatements do not affect our audit opinion.]

Auditor’s Opinion

In our opinion, the attached Statement presents fairly, in all material respects, the assets [and liabilities] of [user entity] as of [date] and transactions for the [period] then ended, for which †XYZ Service Organisation provides [investment management service] services, in accordance with in accordance with the basis of accounting described in Note X [specify framework].¹⁷⁹

Basis of Accounting and Restriction on Distribution

Without modifying our opinion, we draw attention to Note X to the Statement, which describes the basis of accounting. The Statement has been prepared by XYZ Service Organisation for distribution to the [the Trustee/those charged with governance] of [user entity]. As a result, the schedule may not be suitable for another purpose. Our report is intended solely for XYZ Service Organisation, [user entity] and their auditor and should not be distributed to any other parties or used for any other purpose other than that for which they are prepared.¹⁸⁰

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Report on Other Legal and Regulatory Requirements

[Form and content of this section of the auditor’s report will vary depending on the nature of the auditor’s other reporting responsibilities].

[Auditor’s signature]

¹⁷⁹ Insert “applicable Australian Accounting Standards” where multiple Australian Accounting Standards were applied; insert reference to a specific Australian Accounting Standard where appropriate (for example: “the measurement standards of AAS 25 Financial Reporting by Superannuation Plans.”); or “the accounting policies described in Note X to the Statement”.

¹⁸⁰ Use of the report & liability limitation: insert additional/alternative wording, if any, required to reflect any liability arrangements agreed between the service auditor, the service organisation and other users, including confirmation of the purpose for which the service auditor’s report has been prepared and the basis on which other parties may use the report.

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[Date of the auditor's report]

[Auditor's address]

~~[Section C: Example Attachment: to a Special Purpose Service Auditor's Report~~

Uncorrected Misstatements¹⁸¹

In the course of conducting our audit procedures at ~~[XYZ's Service Organisation]~~ for the purpose of reporting on ~~[specific assertions/the Statement]~~ we have identified the following uncorrected misstatements, other than amounts which are clearly trivial, which were determined by [management/those charged with governance] to be immaterial, both individually and in aggregate, to the [specific assets and liabilities or transactions/Statement] taken as a whole. These misstatements are reported solely for the purpose of providing information to ~~client/customers of of XYZ Service Organisation~~ and their auditors and they do not affect our audit opinion:

[Insert: List of uncorrected misstatements]

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¹⁸¹ Include attachment where uncorrected misstatements were identified.

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