Agenda Item 5.1 AUASB Meeting 25 July 2011 Marked Up Version

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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



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Obtaining a Copy of this Guidance Statement

This Guidance Statement is available on the AUASB website: www.auasb.gov.au

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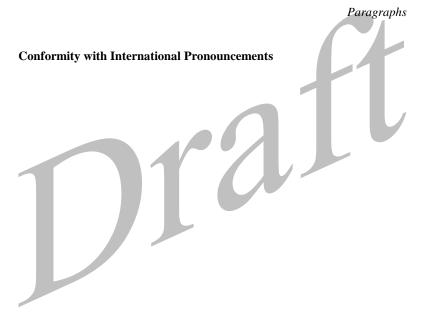
ISSN 1833-7600

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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.



M H Kelsall Chairman - AUASB

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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 <u>a financial report of an</u> entit<u>yies(user entity)</u> which uses <u>a</u> 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 <u>financial information</u> which may be used as audit evidence in the audit of the user entity's financial report.

Issuance Date

 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 20082011.

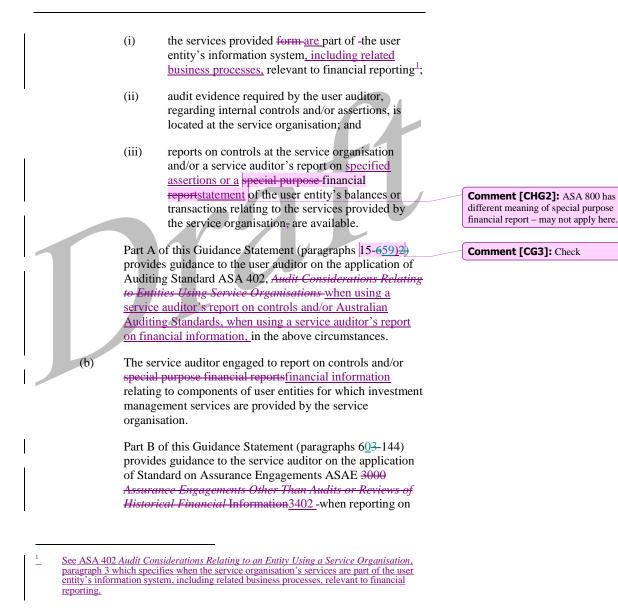
Introduction

- 3. This Guidance Statement has been formulated by the AUASB to provide guidanceapplies 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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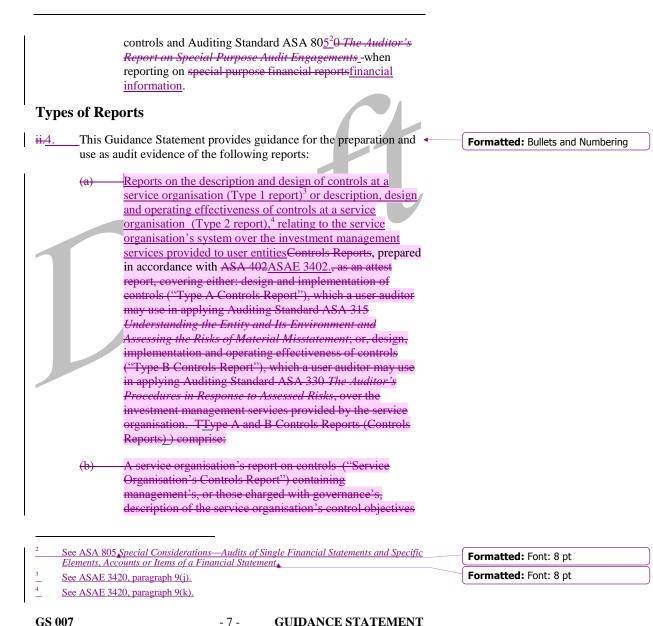
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Comment [CG1]: PAG recommending 1 Jan 2012



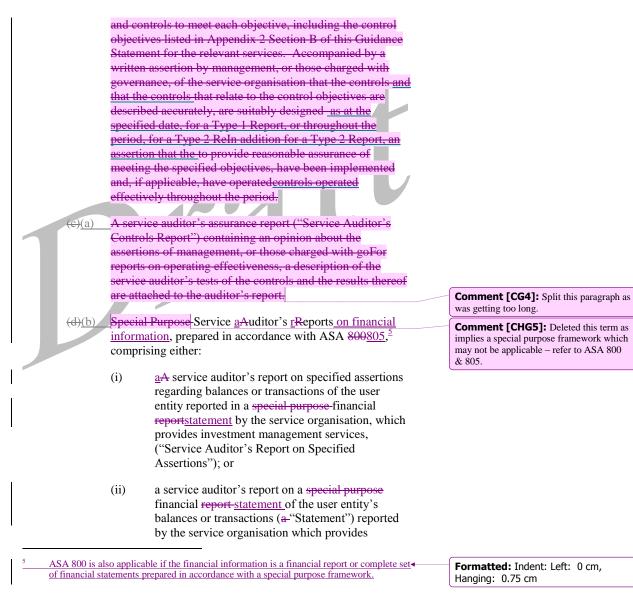
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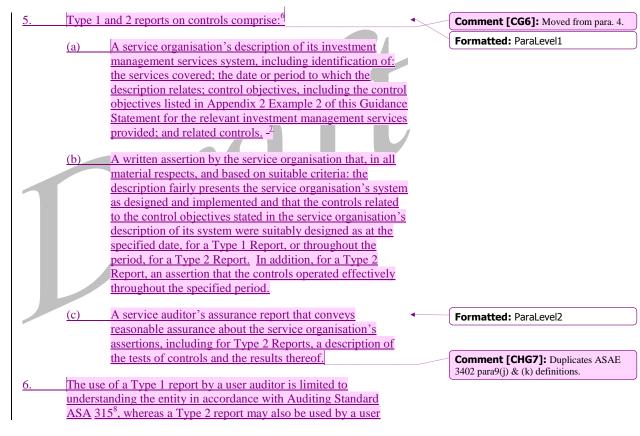
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investment management services ("Service Auditor's Report on a Statement").



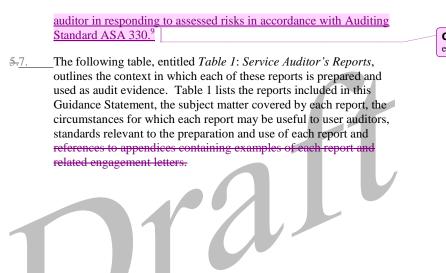
⁶ See ASAE 3402, paragraph 9(j) & 9(k).

⁷ See ASAE 3402, paragraph 9(n).

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

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

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

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Title of	Subject Matter	Circumstances for Which Report is	Relevant	Appendix Reference	Formatted: Font: Bold
Report	Covered by Report	Used by User Auditors	Standards	for Examples	Formatted Table
2. Type B Controls2 Report GS 007	Description, Ddesign, implementation & operating effectiveness of controls at the service organisation.	 Planning: Obtaining an understanding of the user entity and its environment: as for Type <u>A Controls1</u> Reports. Responding to the assessed risks of material misstatement: require when evidence is required of the operating effectiveness of controls, over the services provided, at the service organisation. GUIDANCE STATEMENT 	User Auditor: ASA 402 & ASA 330 Service Auditor: ASAE <u>30003402</u>	Engagement letter: Appendix 1 Section AExample 1 Service Organisation's Controls ReportDescription of its System and Assertion: Appendix 2: Minimum Control Objectives: Appendix 3; Sections A & B Service Auditor's Controls Type 2 Report: Appendix 2 Section C4 and	Comment [CHG9]: Change to ASAE 3402 definitions.

Title of Report	Subject Matter Covered by Report	Circumstances for Which Report is Used by User Auditors	Relevant Standards	Appendix Reference for Examples	Formatted Table
				Appendix 5	
Special Purpose	Service Auditor's Repo	rts on financial information	I		
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 <u>800805</u>	Engagement letter: Appendix 1 Section <u>BExample 2</u> Service Auditor's Report: Appendix 3 Section A <u>6 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 CExample 3 Service Auditor's Report: Appendix 3 Section BAppendix 6	
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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	Formatted Table
				Example 2	



<u>rgan</u>	nisations for Investment Management Services	solid line, Auto, 0.5 pt Line width)
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	references to appendices containing examples of each report and related engagement letters.	Formatted: Indent: Left: 0 cm, Hanging: 1.25 cm, No bullets or numbering
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 <u>on controls</u> based on limited assurance, <u>however</u> , it may be adapted, as necessary in the circumstances, toto	
	<u>an engagement to provide a-limited assurance conclusionon</u>	
	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 do
		not allow for adaption to reviews.
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 <u>Related</u>	
	Services ⁴⁰ -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	
-	necessaryrequires, for example when:	
	necessary <u>requires</u> , for example when	
	• A <u>t</u> Type <u>B-21Controls</u> <u>R</u> 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	Formatted: Indent: Left: 1.25 cm
	service level agreement or contract, but the user auditor	
	nevertheless requires selected controls to be assessed <u>tested</u>	
	at the service organisation.	
	Engagements to Report Factual Findings.	Exemption English (1 5)
	Engagements to Report 1 actual 1 mem55	Formatted: English (U.S.)

> -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.

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,

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.

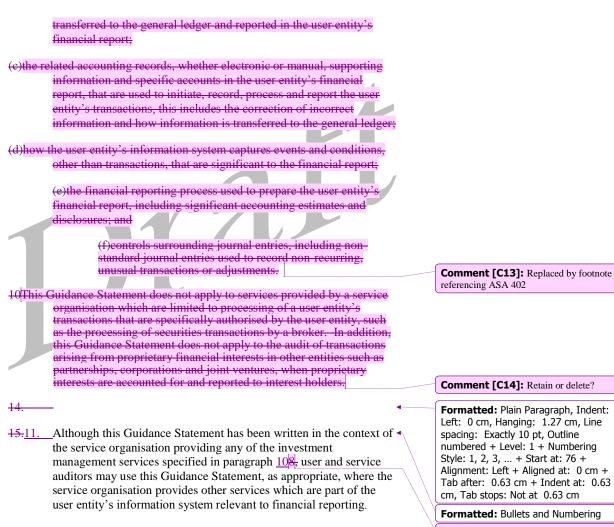
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Comment [CG11]: Address hedge funds in definition of asset management in Appendix

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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Comment [C14]: Retain or delete?

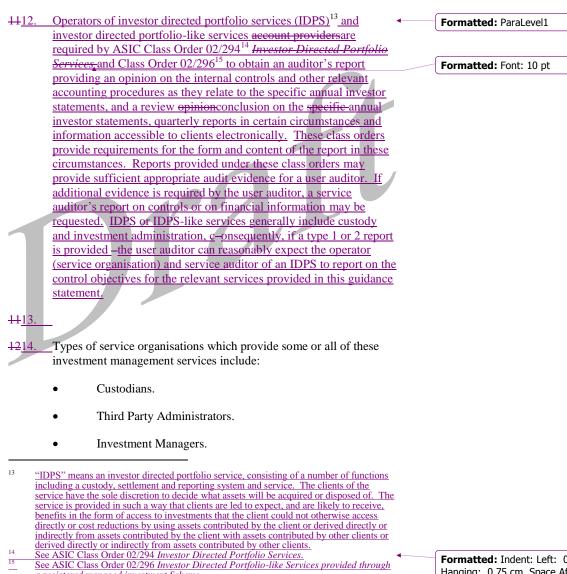
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Comment [CHG15]: Check ref.

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a registered managed investment Scheme.

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Registrars. Trust Departments of Financial Institutions. Prime Brokers. Comment [CG16]: See comment letters. The responsible parties which typically engage the services of these 1315. Formatted: Bullets and Numbering 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. • <u>1416.</u> _The responsibilities of the responsible party of a user entity are set Formatted: Bullets and Numbering out in the relevant laws and regulations governing their role and the particular services they oversee.

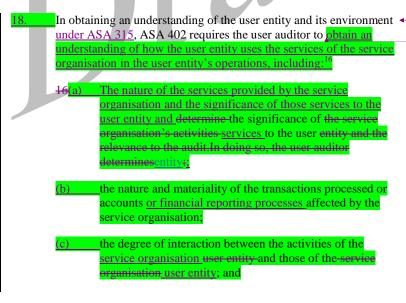
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A: GUIDANCE FOR THE USER AUDITOR

45<u>17.</u> 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



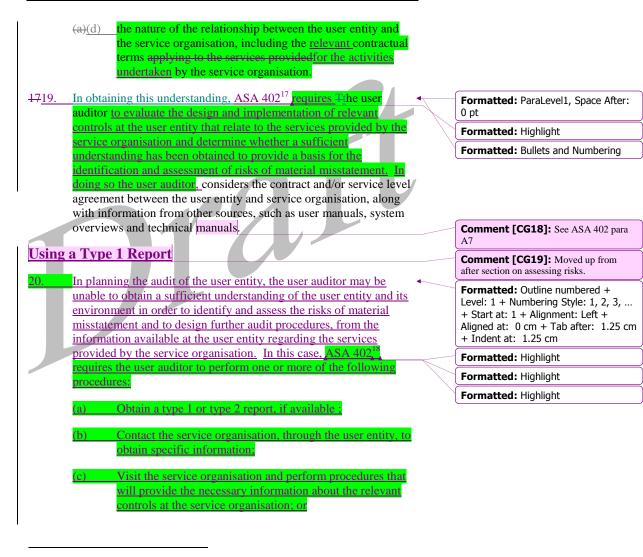
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Comment [CHG17]: Review against new ASA 402.
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¹⁶ See ASA 402, paragraph 9

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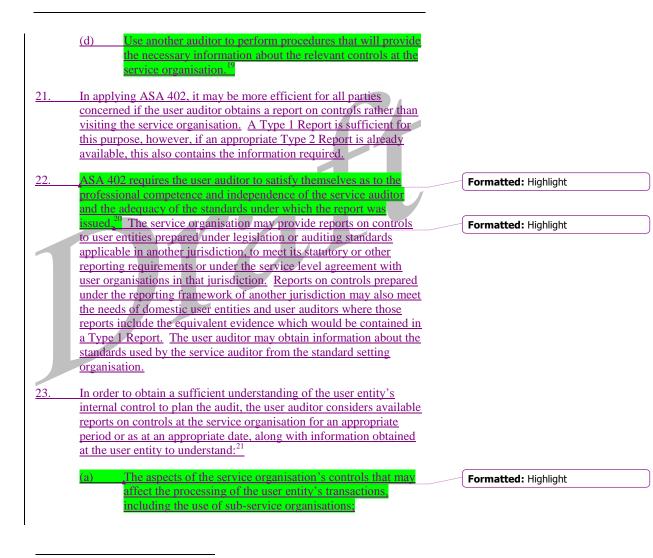


¹⁷ See ASA 402, paragraph 10-11.

¹⁸ See ASA 402, paragraph 12.

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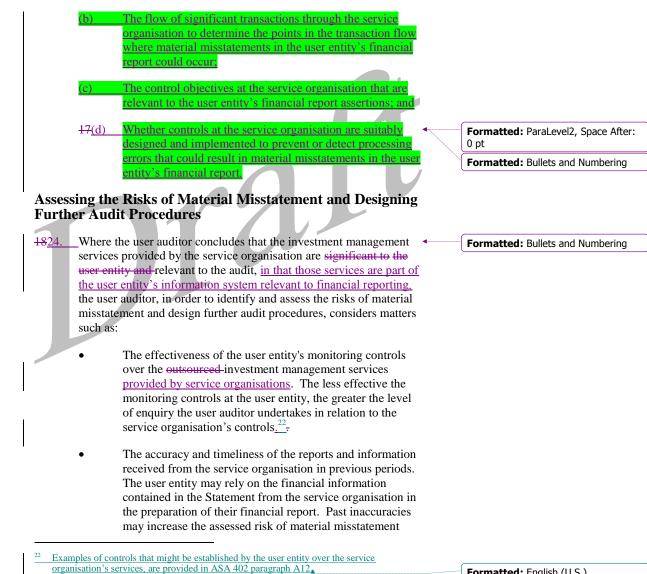
19See ASA 402 paragraph 1220See ASA 402 paragraph 13

See ASA 402 paragraph 13 See ASA 402 paragraph 14 and A22.

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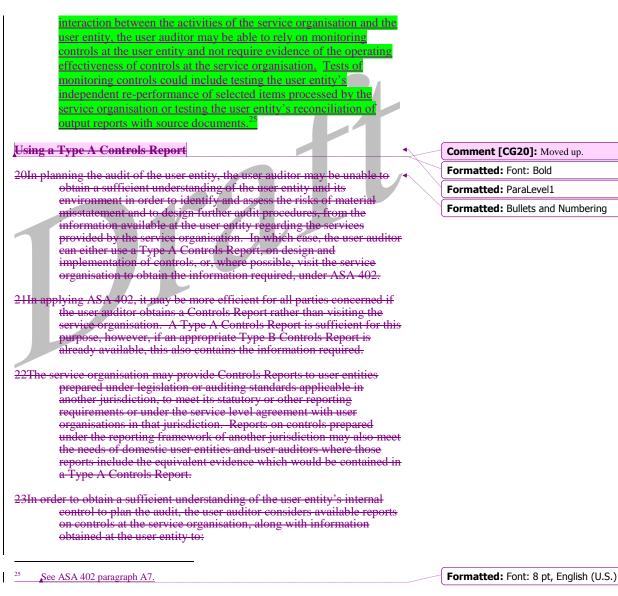
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with respect to particular assertions such as completeness, rights and obligations and valuation. The occurrence of significant control weaknesses deficiencies in the system of control of the service organisation or in the monitoring or complementary 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 information $\frac{23}{2}$. 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 organisation $\frac{24}{2}$. 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, then Sstatement, then a Type 1A or a Type B Controls2 Report is not necessary. If there is a high degree of Formatted: Highlight 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. Sources of information are listed in ASA 402 paragraphs A1 and A2. Formatted: English (U.S.) Formatted: English (U.S.)

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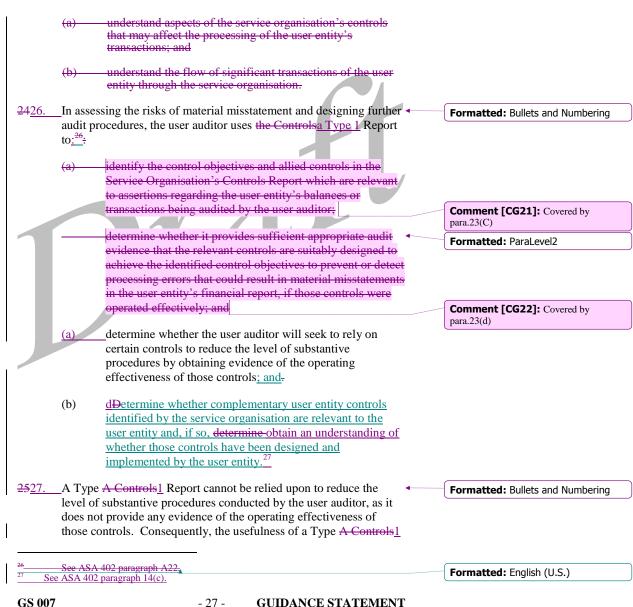
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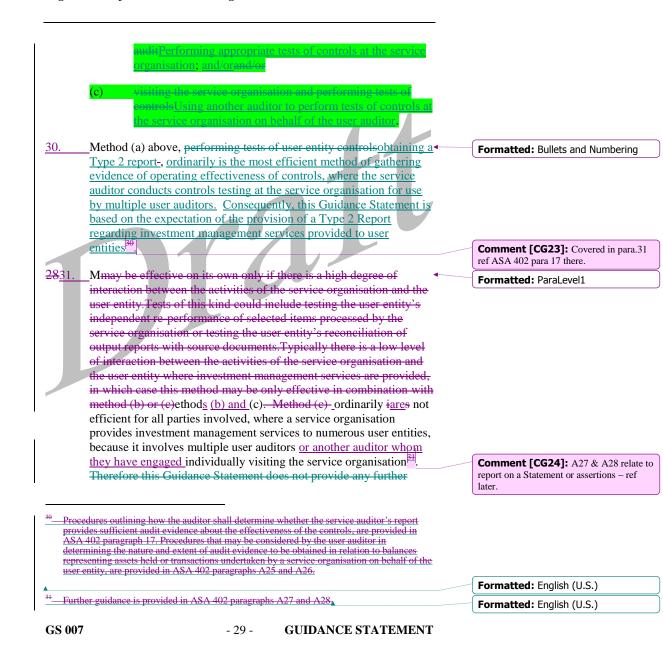
Report to a user auditor is limited to planning the audit, assessing the risk of material misstatement and designing further audit procedures.

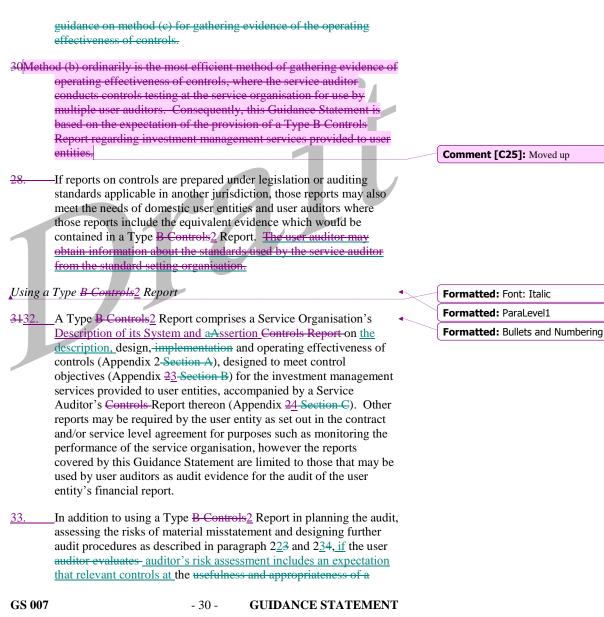
Responding to Assessed Risks of Material Misstatement



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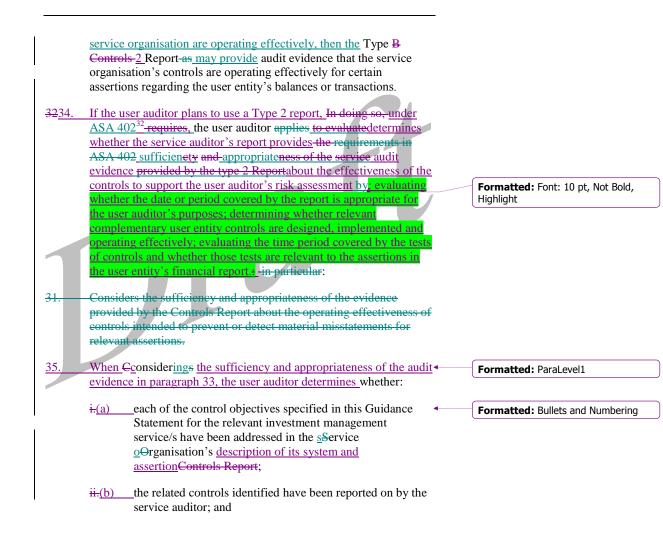
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Comment [C25]: Moved up

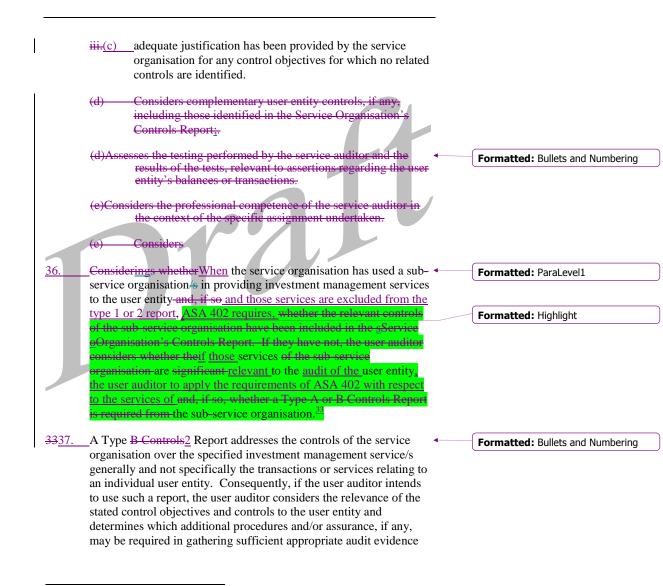
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 $[\]frac{32}{2}$ See ASA 402 paragraph 17 and 18.

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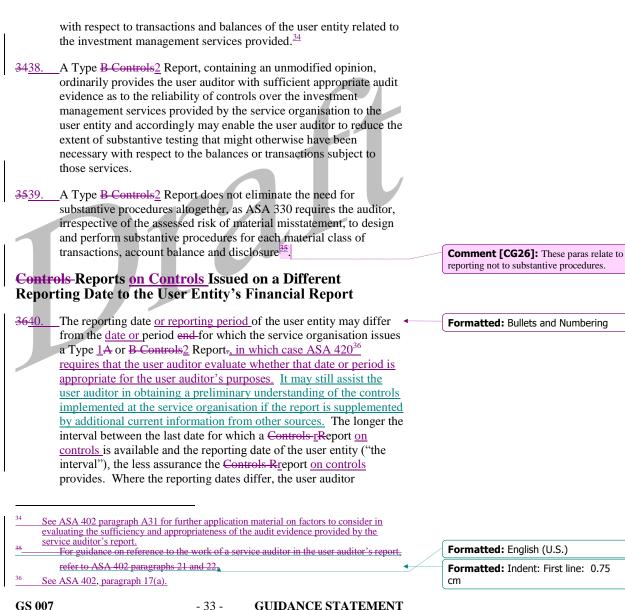
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³³ See ASA 402 paragraph 18.

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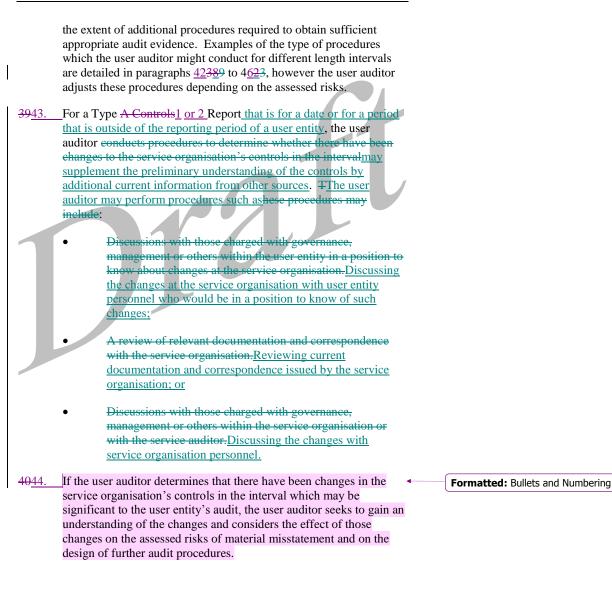
considers which procedures are necessary to obtain sufficient appropriate audit evidence regarding the design and implementation of the service organisation's controls at the user entity's reporting date and, if required, operating effectiveness of those controls over the interval.³⁷



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

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1	41.45	г т					
ļ	41 <u>45.</u>		pe <u>B Controls2</u> Report on design, implementation and				
			g effectiveness of controls, where the interval is short, such				
i			od of up to three months, the user auditor may conduct the				
			res listed in paragraph 4239 to identify any changes in the				
			described in the Type <u>B-Controls2</u> Report. In addition, the				
			itor may seek a written representation from the service				
		organisa	tion regarding the continued operating effectiveness of				
		controls	identified in the Type B Controls2 Report and the operating				
		effective	ness of any new controls implemented during the interval,				
		particula	rly those relevant to the user entity's audit. Further tests of				
		the operation	ating effectiveness of those controls may be necessary where				
		the chan	ges implemented are significant to the audit of the user				
		entity ³⁹ .					
	42 <u>46.</u>	For a lor	nger interval, such as in excess of three months, up to and				
		including	g six months, in addition to conducting the procedures in				
		paragraph $4\underline{24}$, the user auditor may request the user entity to					
		obtain ev	vidence from the service organisation that the controls are				
		still in pl	lace and that any new controls are operating effectively.				
		This may	y take the form of a service auditor's review or an agreed-				
		upon pro	ocedures engagement.				
	<u>4347.</u>		ng interval, such as in excess of six months, the user auditor				
			s the sufficiency and appropriateness of the available audit				
		evidence	e and, where further evidence is required, the user auditor:				
		•	Conducts alternative audit procedures.				
ī							
		•	Requests that the user entity to obtain a new Type B				
l			Controls2 Report under this Guidance Statement from the				
			service organisation.				
		•	Visite the convice enconientian to gether the avider of				
		•	Visits the service organisation to gather the evidence				
			required.				

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.

Assessing <u>Exceptions Deviations</u> Reported or a Modified Opinion on Controls

44<u>48.</u> <u>Controls Type 1 and 2</u> Reports are prepared for the purposes of multiple user entities, not specifically for the purposes of any individual user auditor. <u>Exceptions Deviations noted</u> by the service auditor or a modified opinion in the Service Auditor's <u>Controls</u> Report do not imply that the Service Auditor's <u>Controls</u> Report is not useful for the audit of the user entity's financial report. Rather, the <u>exceptions deviations</u> and the matters giving rise to a modified opinion in the Service Auditor's <u>Controls</u> Report are considered in the user auditor's assessment of the results of the testing of controls performed by the service auditor.

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 weaknessesignificant deficienciess 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.

Using a Special Purpose Service Auditor's Report<u>on</u> <u>Financial Information</u>

 46<u>50.</u> Whilst the user auditor may be able to rely on a Type <u>B Controls2</u> Report as audit evidence of the operating effectiveness of controls to mitigate identified risks of material misstatement, a Type <u>B</u>

⁴⁰ See ASA 402 paragraph A38.

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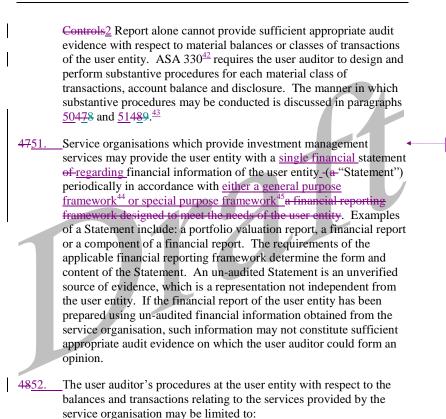
Comment [CG27]: PAG confirm that leaving this in is appropriate given different wording from ASA 402 paras A35-A37.

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

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⁴¹ See ASA 402 paragraph A38.



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.

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

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

- 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 $\underline{1}A$ or \underline{B} Controls2 Report on the relevant investment management services, may not generate sufficient appropriate audit evidence.

49<u>53.</u> The user auditor exercises professional judgement to determine whether procedures conducted at the user entity as described in paragraph 4<u>7</u>8, considered alone or in combination with a Type <u>A-1</u> or <u>B-Controls2</u> 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:

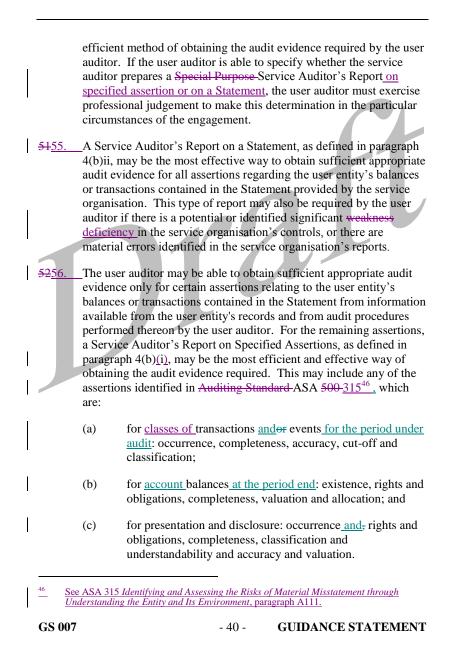
- (a) obtains a <u>Special Purpose</u> Service Auditor's Report<u>on</u> <u>financial information</u>; or
- (b) gains access to the records and other information relating to the user entity in the possession of the service organisation.
- S054. As with the Controls-Type 1 or 2 Report, it may be more 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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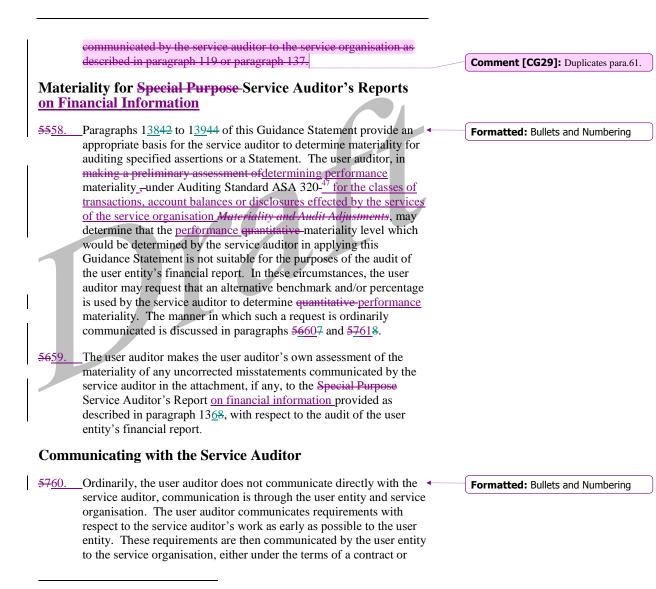
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In many circumstances, the use of a Service Auditor's Report on Specified Assertions in conjunction with a Type B-Controls2 Report provide the user auditor with sufficient appropriate audit evidence concerning the balances or transactions reported in the Statement. In evaluating the audit evidence provided by a Special Purpos 5357. Formatted: Bullets and Numbering Service Auditor's Report on financial information, the user auditor considers: the professional competence of the service auditor in the (a) context of the assignment conducted; the sufficiency and appropriateness of the evidence, (b) whether on its own or in conjunction with a Controls Type 1 or 2 Report, provided by the Service Auditor's Special Purpose rReport on financial information regarding the assertions on which evidence is required; the impact of any modification to the Service Auditor's (c) 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 the effect of any other matters, including significant (e) 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. 54In order to determine whether any matters of governance interest have Formatted: Bullets and Numbering come to the attention of the service auditor in relation to the services 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 GS 007 GUIDANCE STATEMENT - 41 -



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

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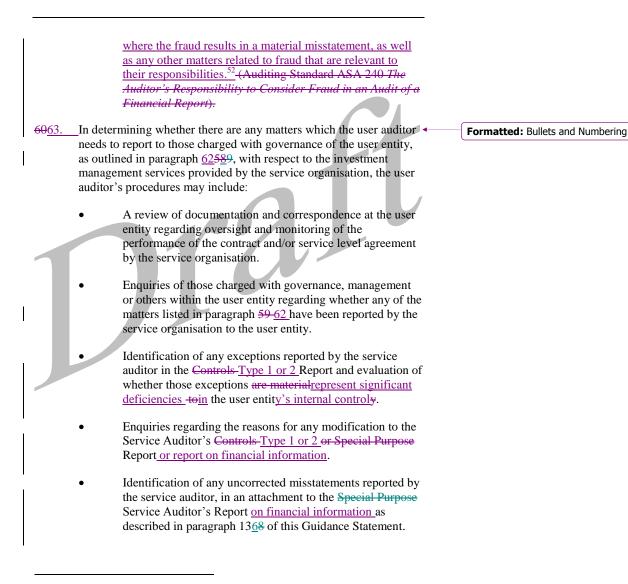
service level agreement $\frac{48}{10}$ or by means of a specific request. In turn, these requirements are communicated by the service organisation to the service auditor and key requirements ordinarily are reflected in the service auditor's engagement letter with the service organisation. The user auditor's engagement letter may contain requirements for 5861. 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 The user auditor is required under the Auditing Standards to 5962. 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: material weaknessessignificant deficiencies -in internal (a) control identified during the audit; (ASA 31549); (b) significant findings from the auditaudit 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 reportto 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 existothers Formatted: Indent: Left: 0 cm, See ASA 402 paragraph A8. See ASA 265 Communicating Deficiencies in Internal Control to Those Charged with Governance and Management, paragraph 9. See ASA 260 Communication with Those Charged with Governance, paragraph 16. See ASA 450 Evaluation of Misstatements Identified during the Audit, paragraph 12.

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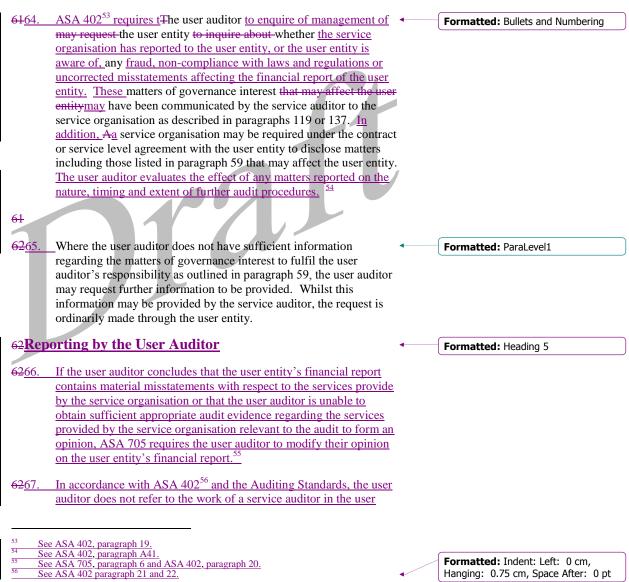


See ASA 240 The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report, paragraph 41 and 42.

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B: GUIDANCE FOR THE SERVICE AUDITOR

Types of Engagements

6368. Under a contract or service level agreement, the service organisation array agree to provide periodically the user entity with a Type A-1 or B2 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.

Engagements to Report on Controls

Nature of Engagement

69. Service auditor-s' engagements to provide Type 1 or 2 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 service oOrganisation'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.

—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 <u>2 Section B3</u> sets out the control objectives which the user entity can expect to be included in Type <u>A-1</u> or <u>B Controls2</u> Reports for each of the relevant investment management services. The service organisation may choose to include additional control objectives in

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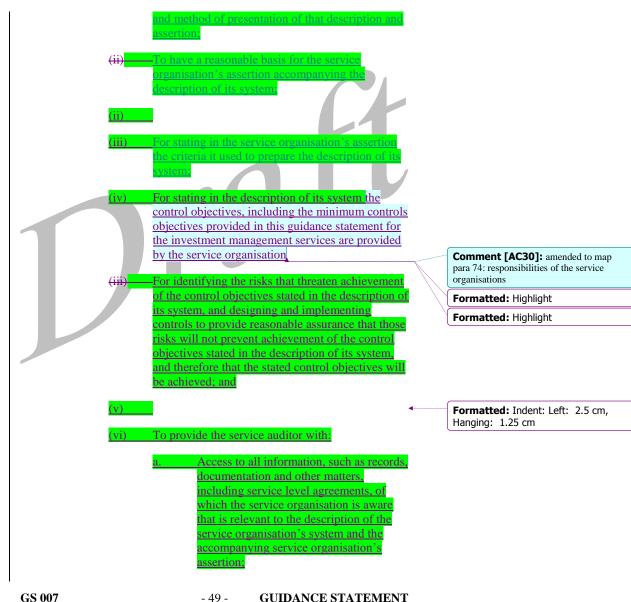
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⁵⁷ See ASAE 3402, paragraph 13.

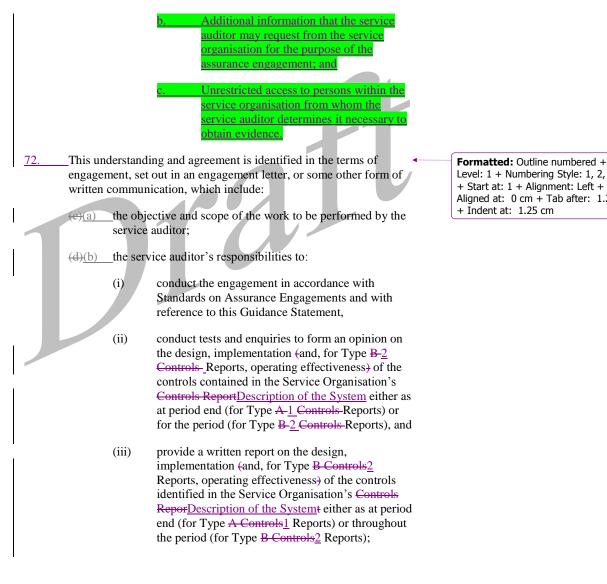
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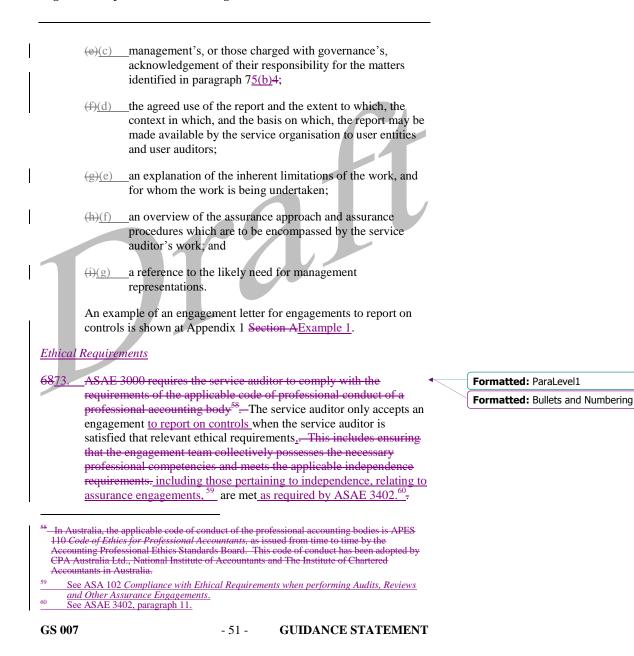
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This includes ensuring that the engagement team collectively possesses the necessary professional competencies and meets the applicable independence requirements. In order to meet these independence requirements of the applicable 74. code of professional 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, oOrdinarily 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 systemControls 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 AExample 1 and

Responsibilities of the Service Organisation

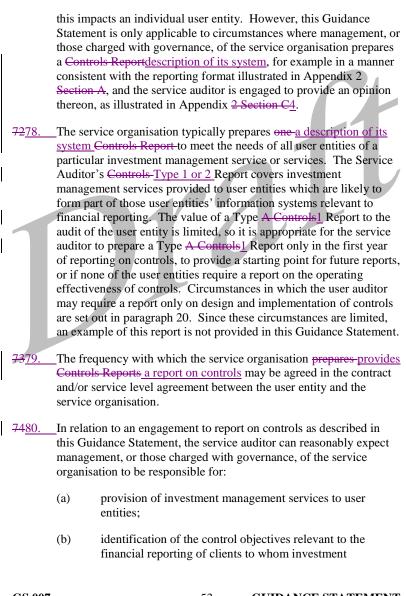
Appendix 2-4Section C respectively.

 7477.
 It is for management, or, where appropriate, those charged with governance, of the service organisation to decide whether to prepare a Controls-rReport 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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	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 <u>B Controls2</u> Reports: operating effectiveness) of the service organisation's controls for the relevant period; <u>and</u>
(e)	provision of a written report as described in paragraph 76.;
	and
(1)	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.			
	which have been reported to user entities.	Comment [CG31]: Covered in written representations.		
Assessing	the Suitability of the Criteria	Formatted: Heading 7		
81. I	n assessing whether the service organisation has used suitable	Formatted: Bullets and Numbering		
-	riteria in preparing the description of the system, evaluating			
	whether controls are suitably designed and, in the case of Type 2			
r	eports, in evaluating whether controls are operating effectively, in			
a	ccordance with ASAE 3402, ⁶¹ the service auditor determines			
v	whether In order to evaluate the effectiveness of controls, the service			
e	rganisation uses the minimum control objectives provided in this			
2	uidance statement ⁶² for the relevant investment management			
S	ervice or services provided in Appendix 2 Section B as suitable			
e	riteria.are included in the description of the system.			
	It is the responsibility of management, or those charged with			
	overnance, of the service organisation to ensure that the control			
	bjectives are sufficient to meet the expectations of user entities and			
	hat any omissions or amendments to the minimum control			
objectives are appropriate. A service organisation may therefore				
	onsider the need to add further objectives and supporting controls			
	where appropriate. The service auditor evaluates the suitability of			
	ny additional control objectives specified by the service			
	rganisation, by determining if they meet the characteristics of			
	elevance, completeness, reliability, neutrality and			
<u>u</u>	nderstandability. ⁶³			
7592				
	f the service organisation omits or modifies a control objective from SS 007 or adds further control objectives, the service auditor can			
	xpect those omissions, modifications or additional objectives to be			
	learly identified in the service organisation's description of the			
	ystem. If a control objective is omitted, the service organisation			
	have list that objective and note briefly the reasons for its omission.			
I <u>I</u>	hay not that objective and note orienty the reasons for its offission.			
61 Cas A C	AE 3402, paragraphs 15-18 for further requirements in assessing the suitability of the			
<u>criteria</u>				
$\frac{62}{\text{See Appendix 3.}}$				
	AE 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
	Statementaccordance 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 objectives ⁶⁴ ; 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;
4.15	
(d)	the name and signature of a representative of management, or those
	charged with governance, signing on behalf of the service
	organisation;
	4 4 . 6 4
(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 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.	Comment [CG33]: Covered adequately in para.5
<u>84.</u> <u>8285.</u>	An example of a Service Organisation's Controls Reportdescription of its system is shown at Appendix 2-Section A. 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.	
<u>83</u>	—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 <u>B Controls2</u> Reports, to assess the operating effectiveness of the controls as if a service organisation were not used. However, the description of	
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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. Complementary User Entity Controls 8087. In rare circumstances, specific controls at tThe 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

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.

such complementary internal controls of user entities

Service Organisations That Use Sub-service Organisations

("complementary controls").

8289. When a service organisation uses another service organisation ("subservice 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 <u>s</u>-service <u>o</u>Organisation's <u>description of its system</u>Controls Report. The description provides sufficient detail for the user entity and the user auditor to understand

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

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l		the significance of the sub-service organisation's operations to the processing of the user entity's transactions.
		processing of the user entity's transactions.
	<u>8390.</u>	If $\underline{\text{T}}$ the sub-service organisation's controls <u>may beare</u> included in the service organisation's description and in the scope of the service auditor's engagement ("the inclusive method") r_{2}^{65} then 4. The subservice 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.
	84 91.	In certain limited circumstances, the user entity may agree that If the
	<u>01</u> <u>71</u> .	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 Where the carve-out method is used,
		the sub-service organisation under which Controlsmay issue a Type
		<u>1 or 2</u> 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

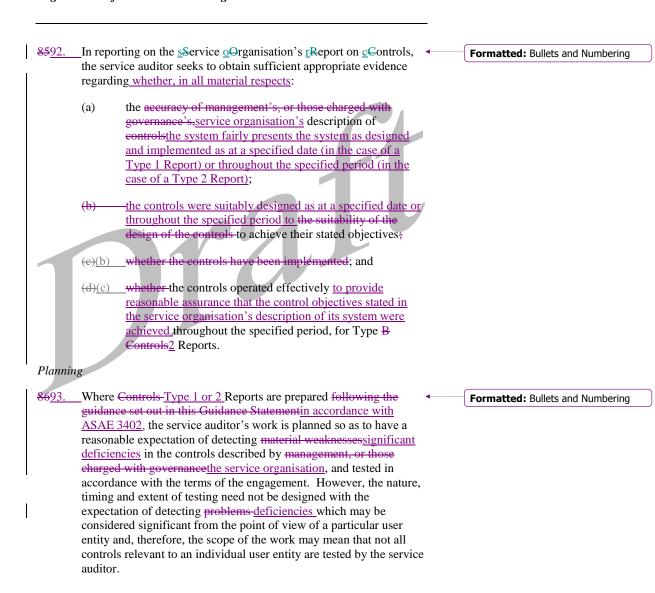
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⁶⁵ Refer to ASAE 3402, paragraph 9(g).

⁶⁶ See ASAE 3402, paragraph 9(a).



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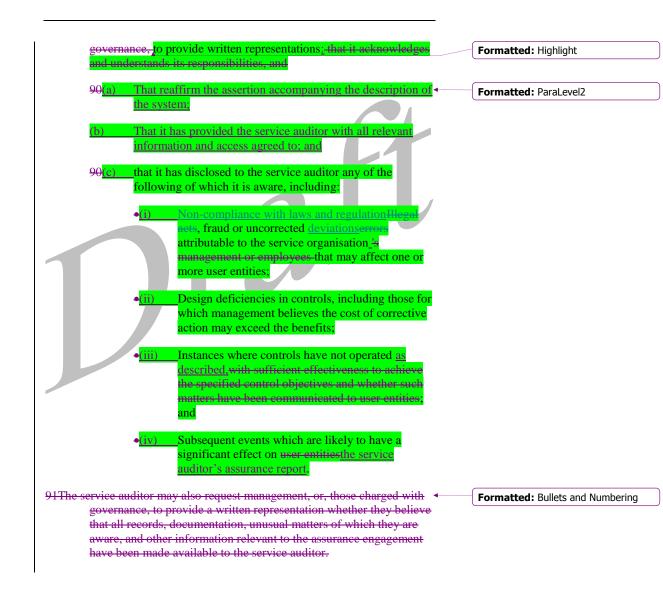
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In order to gain an understanding of the services provided by the 8794. service organisation, the service auditor may conduct procedures such as: Discussing aspects of the control framework and relevant controls with management and other personnel 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. 88As part of planning the engagement, ASAE 3000 requires the Formatted: ListBullet, Indent: Left: service auditor to assess_the appropriateness of the subject 1.25 cm, Hanging: 1.25 cm matter, which are the controls described in the Service Formatted: Bullets and Numbering Organisation's Controls Report. ASAE 3000 provides requirements and guidance on assessing the subject matter. **Comment [CG35]:** Covered by para.82 89 Under ASAE 3000, the service auditor also assesses the suitability Formatted: ListBullet, Indent: Left: of the control objectives, being the criteria for the assurance 2.5 cm engagement. In doing so the service auditor considers whether: 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 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 The service auditor may is required under ASAE 3402⁶⁷ to request Formatted: Bullets and Numbering managementthe service organisation , or those charged with See ASAE 3402 paragraph 38.

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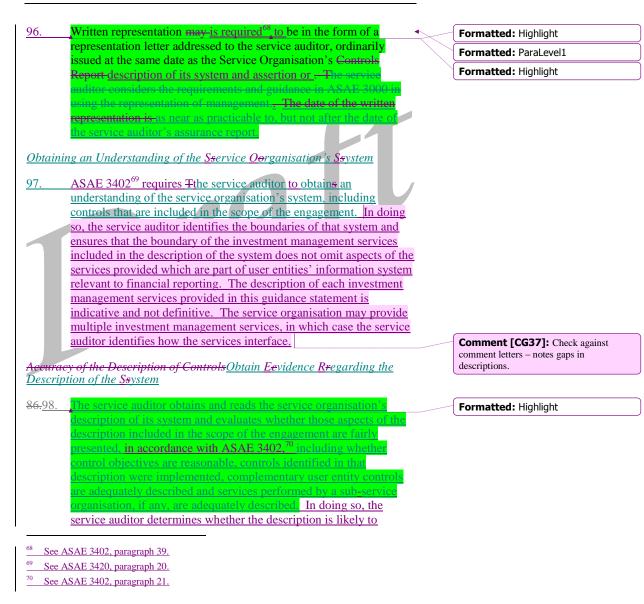
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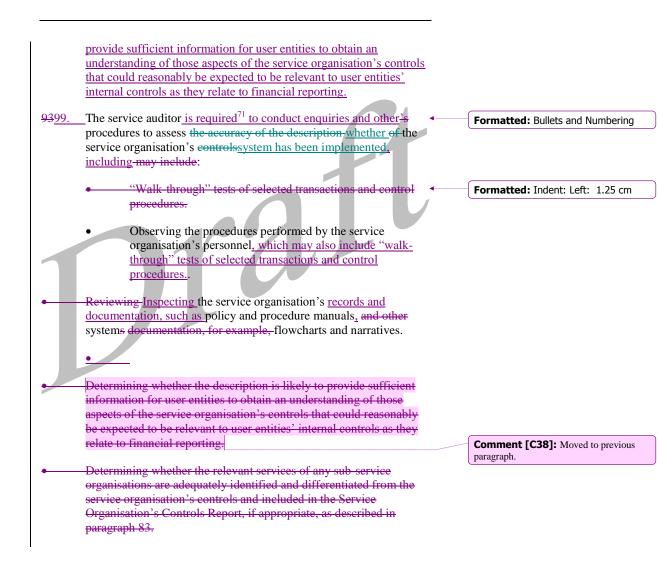
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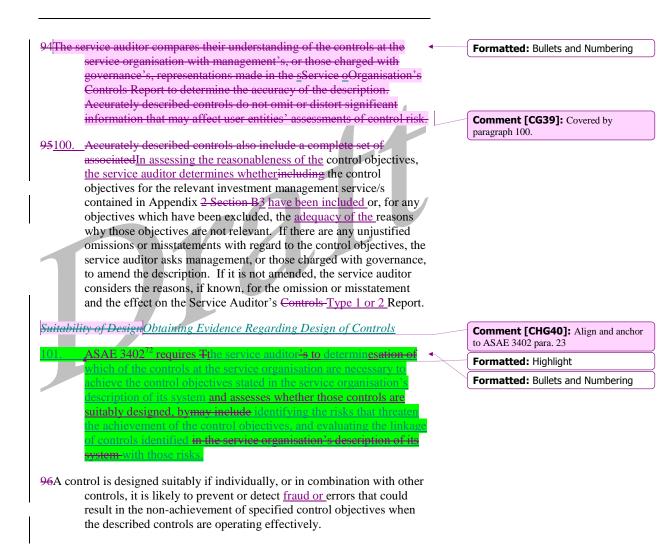
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⁷¹ See ASAE 3402, paragraph 22.

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⁷² See ASAE 3402, paragraph 23.

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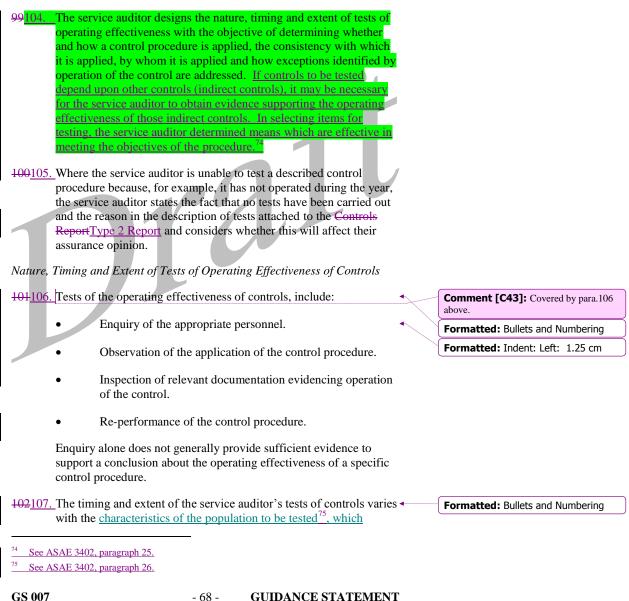
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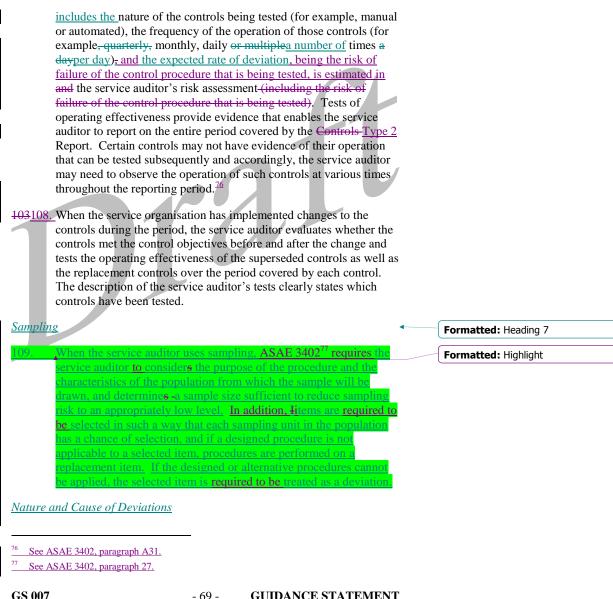
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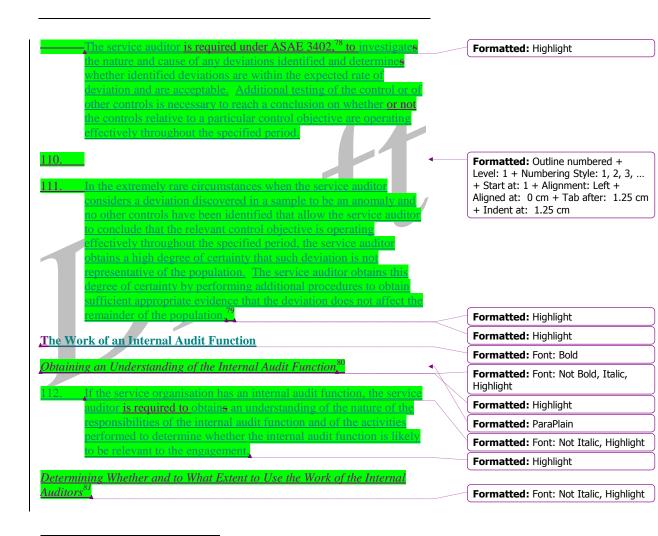
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⁷⁸ See ASAE 3402, paragraph 28.

⁷⁹ See ASAE 3402, paragraph 29.

⁸⁰ See ASAE 3402, paragraph 30.

⁸¹ See ASAE 3402, paragraph 31-33.

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⁸² See ASAE 3402, paragraph 34-35.

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Effect on the Service Auditor's Assurance Report^s 97 **Other Information** Formatted: Normal <u>98.</u> 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 Formatted: Highlight service auditor to take further appropriate action if, following Formatted: Highlight discussion of the matter with the service organisation, the service organisation refuses to correct a material inconsistency or misstatement of fact. Comment [CHG44]: Align with ASAE Subsequent Events 3402 para.43-44 108120. The service auditor is required under ASAE 3402⁸⁵ to enquire as to Formatted: Font: Italic whether the service organisation is aware of any events performs procedures designed to provide sufficient appropriate evidence that Formatted: Normal all matters subsequent to the period covered by the service Formatted: Font: Not Italic, Highlight Organisation's Controls-description of the investment management services systemReport and up to the date of the Service Auditor's Formatted: Bullets and Numbering See ASAE 3402, paragraph 36-37.

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

⁸⁴ See ASAE 3402, paragraph 41-42.

⁸⁵ See ASAE 3402, paragraph 43.

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⁸⁶ See ASAE 3402, paragraph 44.

⁸⁷ See ASAE 3402, paragraph 45.

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⁸⁸ See ASAE 3402, paragraph 46.

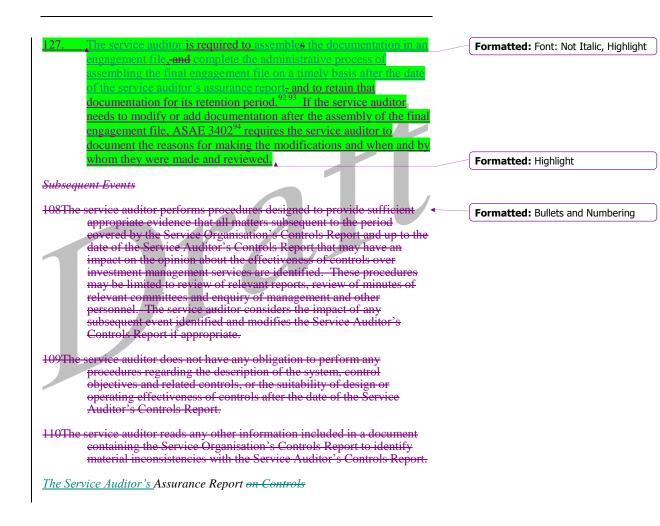
⁸⁹ See ASAE 3402, paragraph 47.

⁹⁰ See ASAE 3402, paragraph 48.

⁹¹ See ASAE 3402, paragraph 49.

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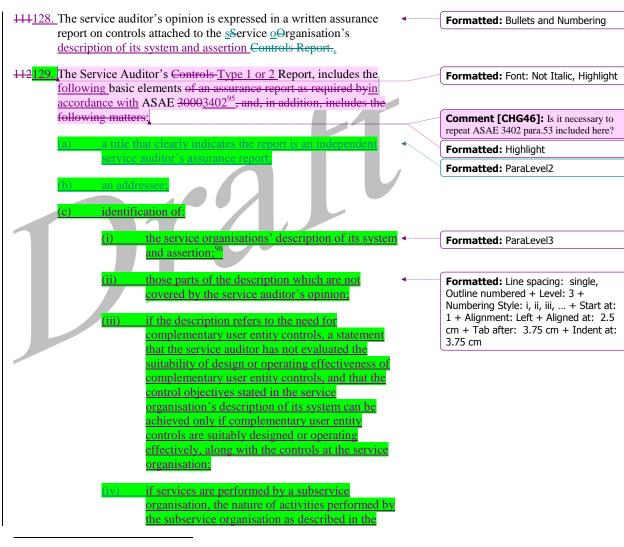
⁹² See ASAE 3402, paragraph 50.

⁹³ See ASAE 3402, paragraph 51

⁹⁴ See ASAE 3402, paragraph 52.

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⁹⁵ See ASAE 3402, paragraph 53.

⁹⁶ See paragraph 5.

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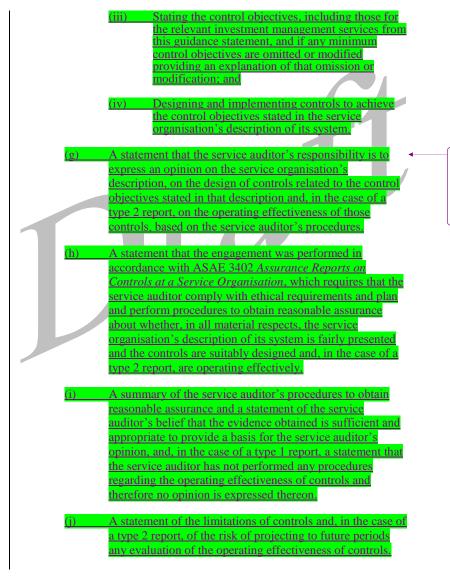
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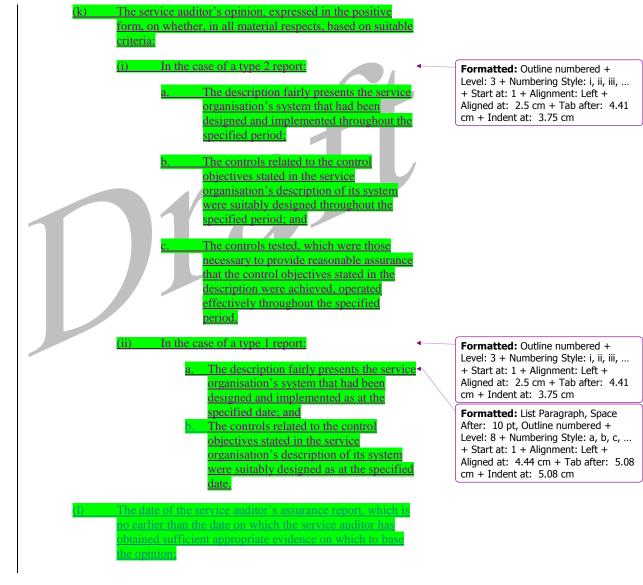
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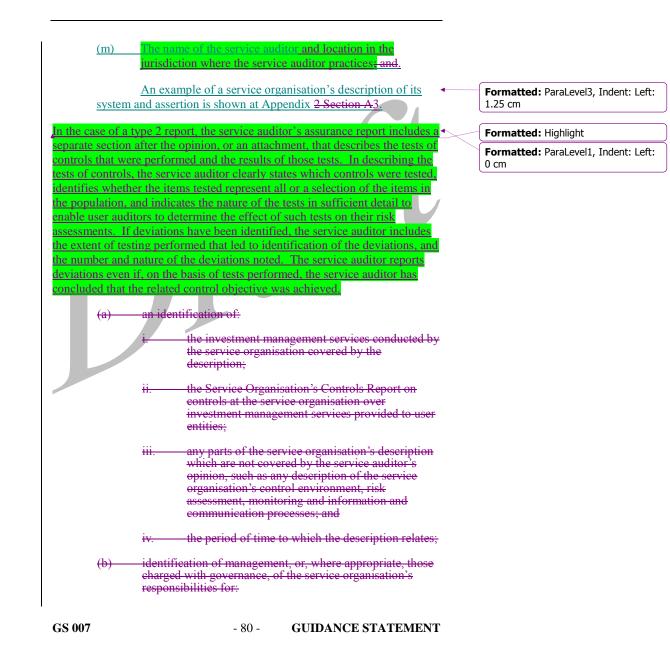
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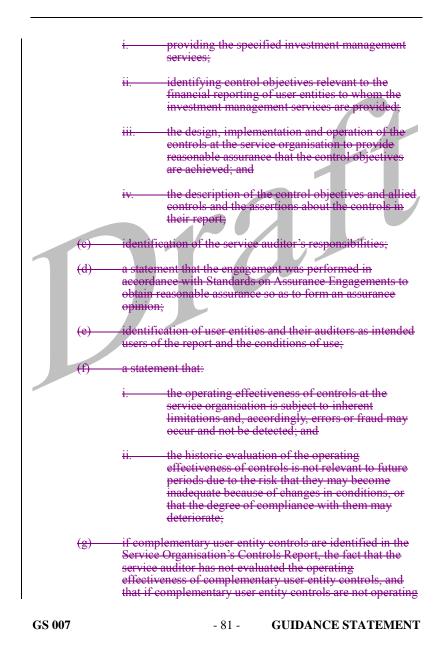
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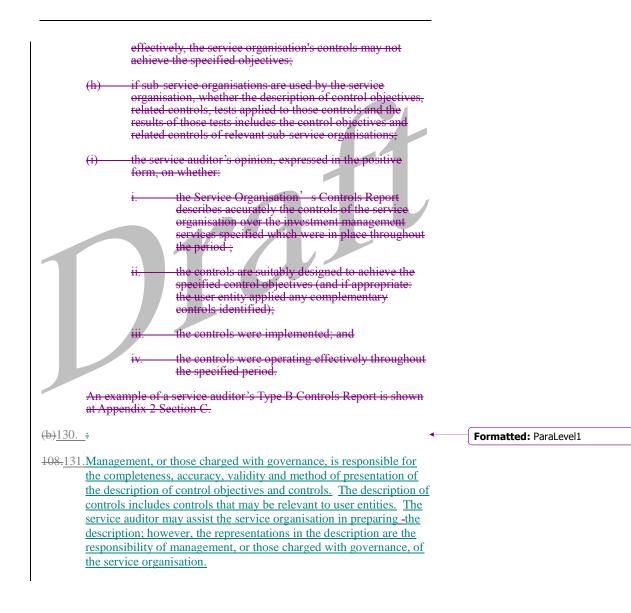


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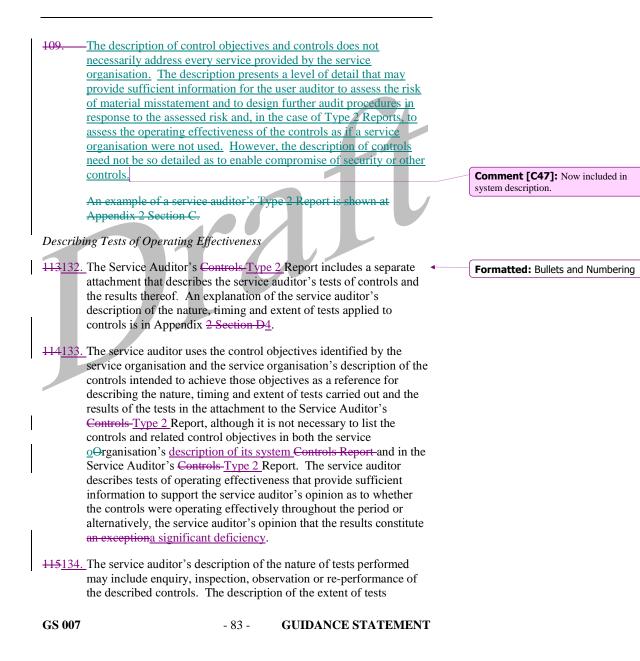






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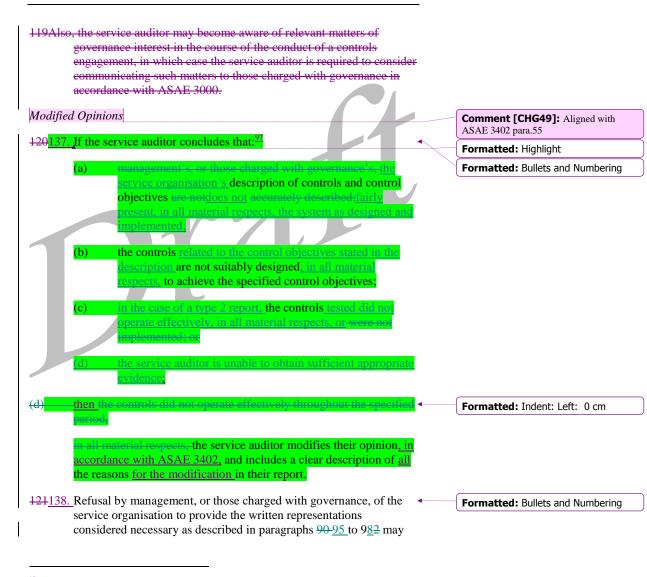


performed identifies whether the items tested represent a sample or all of the items in the population. 1

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Reporting Exceptions Deviations						
116135. 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	Formatted: Bullets and Numbering					
Deviations in the service organisation's controls identified by the						
service auditor may include:						
 Control objectives that are incomplete or inappropriate as compared to the control objectives in this Guidance 						
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.	Formatted: Indent: Left: 1.25 cm					
117 <u>136. If exceptions deviations have been identified</u> , the service auditor	Formatted: Font: Not Italic					
may include, in the attachment to their report on tests of controls:	Formatted: Bullets and Numbering					
• Information about causative factors, to the extent the	Formatted: Font: Not Italic					
service auditor has identified such factors.	Formatted: Indent: Left: 1.25 cm					
• The current status of corrective actions, to the extent the service auditor has determined their status.						
118 The service auditor discusses with management, and, where appropriate,	Formatted: Bullets and Numbering					
those charged with governance, any material exceptions noted, so						
that management, or those charged with governance, may amend the						
<u>sService oOrganisation's Controls Report accordingly. If</u> management, or those charged with governance, refuse or fail to do so the service auditor modifies their report.	Comment [C48]: Amending the report may not eliminate the deviation and so need for modification.					
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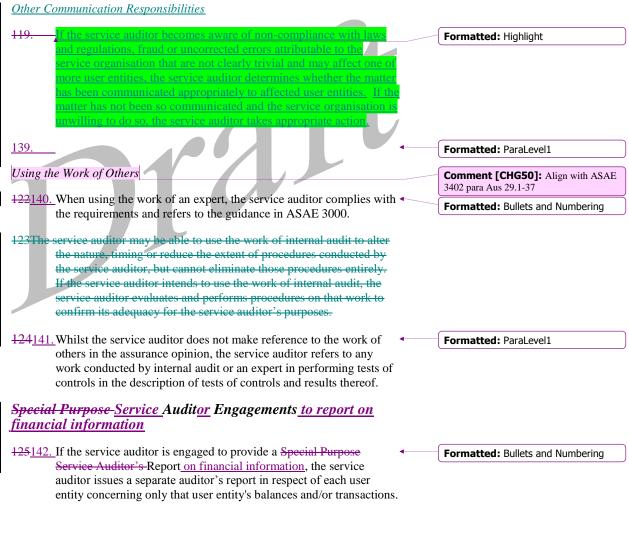


⁹⁷ See ASAE 3402, paragraph 55.

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



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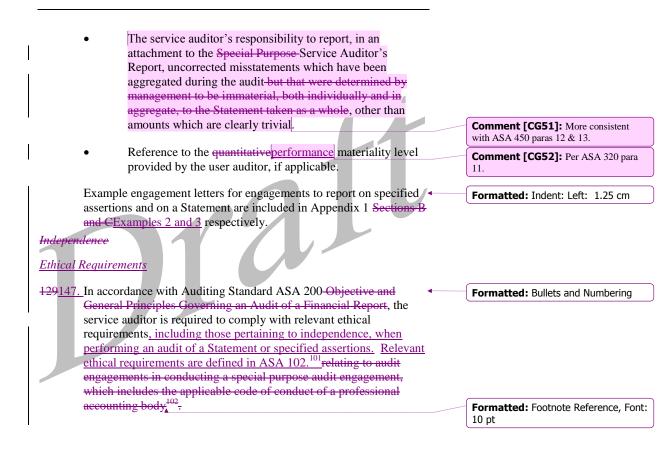
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126143. In performing Aan engagement to report on specified assertions or
on a Statement is a special purpose audit engagement, consequently
the service auditor complies with applies the Auditing Standards
(ASAs) and in conducting reports on the engagement and reports
under ASA 80 <u>5</u> 0.
<u>127144.</u> If the service auditor has prepared a <u>Type 2</u> 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 a <u>n</u> Special Purpose Audit Engagement
145. Before accepting the engagement, the service auditor is required
$\frac{145}{\text{under ASA }210^{98} \text{ to determine the acceptability of the financial}}$
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
transactions and events on the information conveyed.
128146. The service auditor also complies with Auditing Standard ASA 210 - Formatted: Bullets and Numbering
Terms of Audit Engagements in agreeing the terms of engagement.
$\frac{100}{100}$ - 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.

98	See ASA 210 Agreeing the Terms of Audit Engagements, paragraph 6(a).	Formatted: Font: 8 pt, Not Italic
99	See ASA 805, paragraph 8.	
100	See ASA 210, paragraphs 9 & 10.	

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¹ See ASA 102 Compliance with Ethical Requirements when Performing Audits, Reviews and Other Assurance Engagements.

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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.

<u>130148.</u> The service auditor considers the <u>relevant fundamental ethical</u> principles <u>of professional ethics</u>, 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.

131<u>149</u>. The applicable code of professional conduct states that the concept of independence is fundamental to compliance with the principles of integrity and objectivity¹⁰⁴.—Where the service auditor is undertaking an<u>special purpose</u> 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 <u>elientcustomer</u> of the service auditor.

132<u>150.</u> 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<u>152.</u> 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:
 - (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 <u>3 Section A6 Example 1</u> and a Service Auditor's Report on a Statement is provided in Appendix <u>3 Section</u> <u>B6 Example 2</u> of this Guidance Statement.

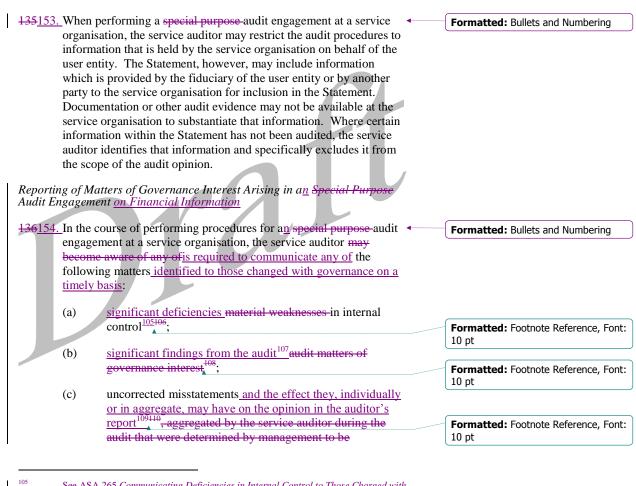
Information Excluded from the Special Purpose Service Auditor's Report

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Comment [CHG53]: And ASA 805 as appropriate

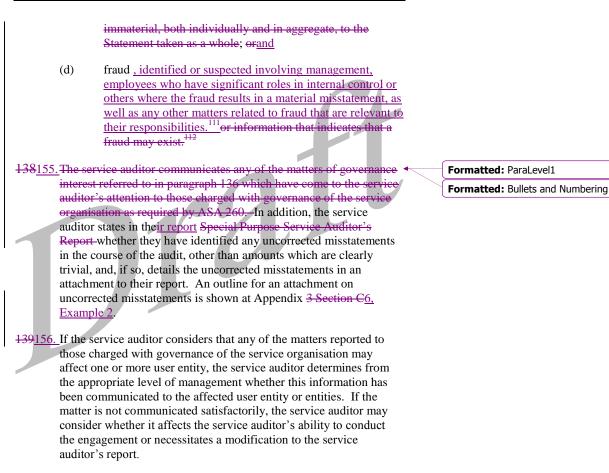
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105	See ASA 265 Communicating Deficiencies in Internal Control to Those Charged with
	Governance and Management, paragraph 9.
106	ASA 315 provides requirements and guidance on material weaknesses in control.
107	See ASA 260 Communication with Those 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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Materiality to be Applied by the Service Auditor

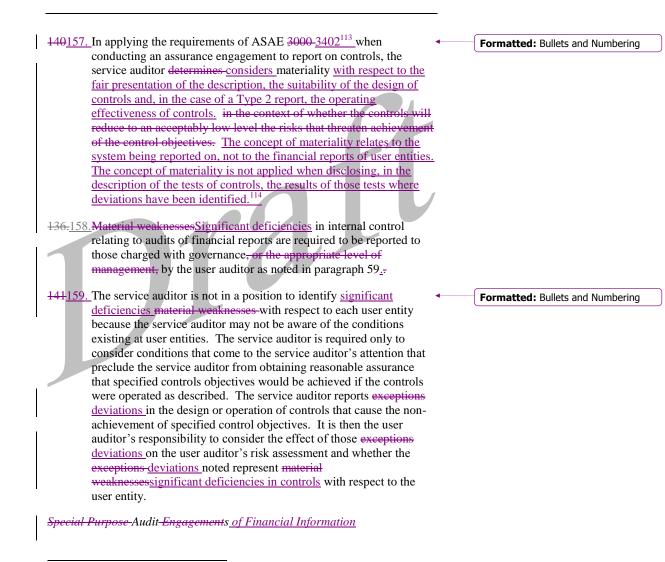
Controls Engagements

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

¹²— ASA 240 provides requirements and guidance on fraud.

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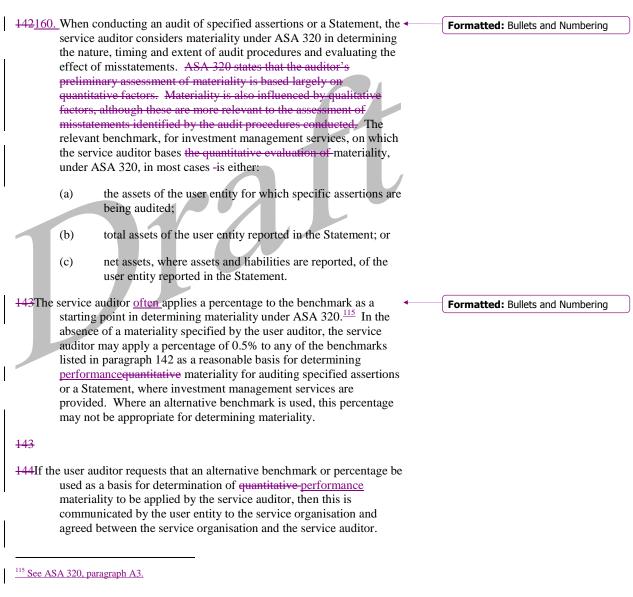


¹¹³ ASAE 3402, paragraph 19.

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



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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

Appendix 1

(Ref: Para.)

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_{7_2} -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 AExample 1: Example Engagement Letter for a <u>Type 2 n Assurance Engagement to Report on a Service</u> Organisation's Controls

To [the appropriate representative of management <u>or</u>/those charged with governance] of $\{XYZ \text{ sService } \Theta \text{ Organisation}\}$:

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

You have requested that we report on the <u>description of XYZ Service</u> <u>Organisation's controls over [specify-investment management services</u> <u>provided</u>: 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

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

¹¹⁶ See ASA 210, paragraph 13.

Appendix 1, Section BExample 1

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 <u>fair</u> 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 <u>period</u>. [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 <u>assurance</u> engagement in accordance with Standards on Assurance Engagements <u>ASAE 3402</u> Assurance Reports on Controls at a <u>Service Organisation</u> 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. Thate Sstandard s on Assurance Engagements requires that we comply with the relevant ethical requirements relating to assurance engagements and plan and perform the engagementprocedures 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].

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¹¹⁷ See GS 007 Appendix 2 Section B.

Appendix 1, Section BExample 1

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.

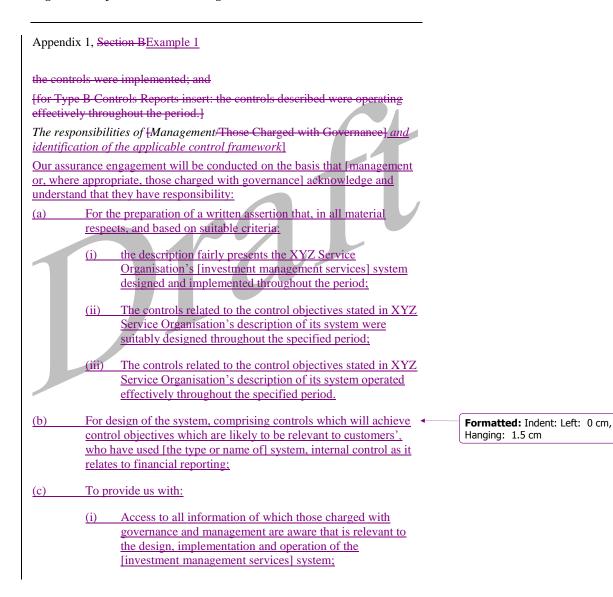
The work undertaken by us to form an opinion We will undertake such enquiries of management, together with tests of control procedures, [for Type B Controls Reports insert: which will be set out in an appendix to our report], is permeated by judgement, in particular regarding the nature, timing and extent 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 eonsider 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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Appendix 1, Section BExample 1

(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

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Appendix 1, Section BExample 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 \underline{XYZ} the Service $\underline{\circ}$ Organisation], then they will include an explanation of the omission of that objective in the [XYZ \underline{sS} ervice $\underline{\circ}$ Organisation]'s Report description of the system.

[Assurance Approach]

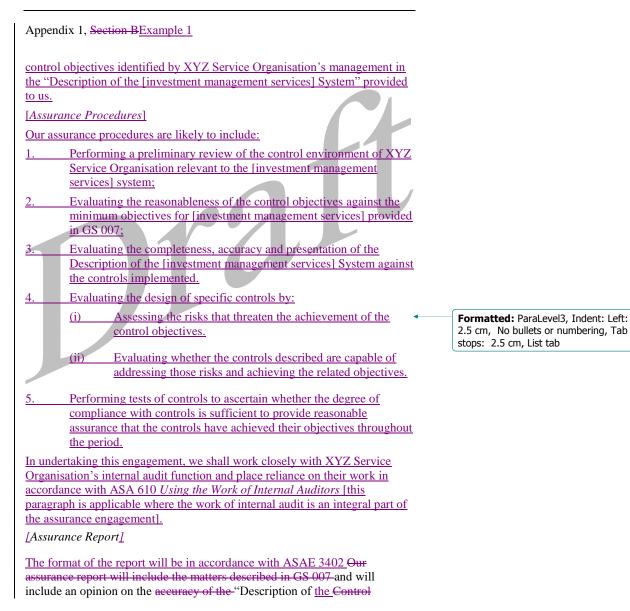
We will examine and evaluate the control objectives and controls for [investment management services] system described above. The "Description of Investment management services] System" will include details of controls with which customers should comply. While our evaluation will include assessment of 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 BExample 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]¹¹⁸.

¹¹⁸ This paragraph is appropriate for recurring engagements.

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Appendix 1, Section BExample 1

Distribution of the Assurance Report

<u>The assurance report will We understand that our report may be incorporated</u> in <u>a report issued by the {XYZ sService oOrganisation] Report</u> containing information prepared by <u>XYZ Service Organisation -</u>[management/those charged with governance] of [service organisation]_to provide to <u>customerselients</u> and the clients²their 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

[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 sService Θ Organisation's customers and their auditors] or for any purpose other than that for which it was prepared.⁴¹⁹ 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].

¹¹⁹ 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 BExamp	<u>le 1</u>		
[Significant Deficiencies in Co	ontrols]		
Modified Report			
reasonable assurance on the essystem where our procedures controls necessary to achieve Description of the [investmen Service Organisation manager exists when prescribed contro them: assurance work does not revea		ervices] cy in the $e\underline{YZ}deficiencyance with$	Formatted: Normal
reasonable assurance fraud, error, or non-c prevented or detected assigned functions; a (b) knowledge of that de assurance report. [management/those charged w control objectives is not accur the controls are not suitably d	Z Service Organisation management that the control objectives will be m ompliance with laws and regulations 1 by employees in the normal course nd ficiency would be material to users of with governance]'s description of con rately described in all material respect esigned to provide reasonable assuration ould have been achieved if the control	et or that would be of their f the trols and ts; nee that the	Formatted: Indent: Left: 0 cm, Hanging: 1.25 cm
operated effectively;	ourd have been demeved if the control	//5	
the controls were not impleme	ented as at the period end; or		
For Type B Controls Reports throughout the specified period	:: the controls did not operate effectiv	ely	
deficiencies in the system of c the period covered by the [ser deficienciesexceptions will be corrected prior to the end of th indicate that such <u>deficiencies</u>	discloses work reveals that there are a controls in operation material exception vice organisation] Rreport, such a disclosed in our report even if they the reporting period. However, our re exceptions were corrected if that is the material exceptions disclosed in our re	vere port will ne case. If	
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Appendix 1, Section BExample 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 <u>assurance</u> engagement will be to enable us to <u>express an opinion on controlsissue the above described report</u>, <u>will also</u> <u>periodically provide you with we may also provide you with a separate letters</u> containing recommendations for <u>strengthening</u> <u>improving</u> controls if <u>such</u> <u>matters</u><u>weaknesses</u> are observed during the process of the <u>assurance</u> engagement. Although <u>weaknesses issues</u> raised may not represent <u>significant deficiencies</u> <u>material weaknesses</u> 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.

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Appendix 1, Section BExample 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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Appendix 1, Section BExample 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.

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Appendix 1, Section BExample 1

Fees

We look forward to full co-operation from your staff <u>during our assurance</u> <u>engagement</u> 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 regardingsuch 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 <u>your</u> acknowledgement of, and agreement with, that it is in accordance with your understanding of the arrangements for our <u>assurance</u> engagement to report on the control <u>procedures</u> over <u>XYZ [sS</u>ervice Θ] reganisation]'s [investment management services] services to customers, including our respective responsibilities.-

Yours faithfully,

[signed]

Name and Title

Date

Acknowledged on behalf of [XYZ Sservice oOrganisation] by

[(signed])

.....

Name and Title

Date

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Appendix 1, Section B

Section BExample 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 reportstatement] 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 <u>AuditingAustralian</u> <u>Auditing</u> 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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Appendix 1, Section BExample 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 <u>internal</u> controls relevant to the <u>entity'sXYZ Service Organisation's</u> 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'sXYZ

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Appendix 1, Section BExample 2

<u>Service Organisation's</u> controls¹²⁴. However, we <u>will communicate</u>expect to provide-you with a separate letter<u>in writing</u> 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<u>we have identified</u> 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 Governancemanagement and identification of the applicable financial reporting framework].

We take this opportunity to remind youOur 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

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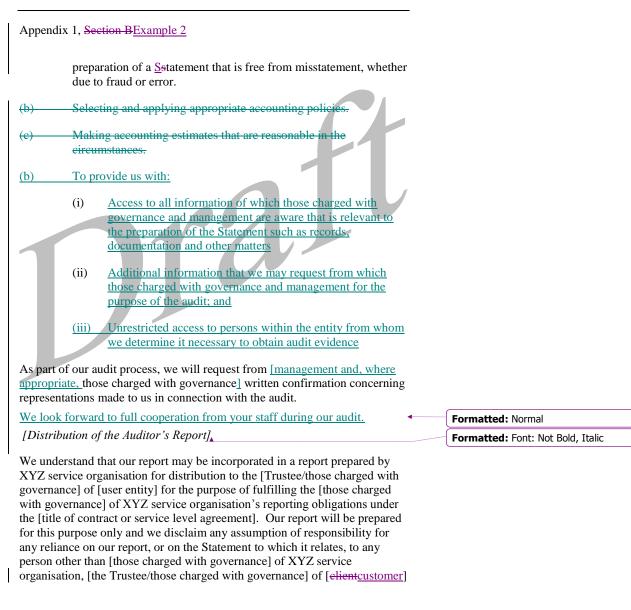
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¹²⁴ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the Statement, this sentence would be worded as follows: "In making those risk assessments, 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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Appendix 1, Section BExample 2	
and their Auditor, or for any other purpose other than that for which it was prepared. ¹²⁷	
[Other relevant information]	Formatted: Font: Italic
[Insert other information, such as fee arrangements, billings and other	
specific terms, as appropriate.] [Reporting]	Formatted: Font: Italic
<u>[Insert appropriate reference to the expected form and content of the auditor's report.]</u>	
The form and content of our report may need to be amended in the light of	
our audit findings.	Formatted: Font: Not Bold, Italic
Independence	Formatted: Font: Not Bold, Italic
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

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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.

Appendix 1, Section BExample 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.	Formatted: Heading 6, Space After: 0 pt
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.	Formatted: Space After: 4 pt
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

<u>Firm</u> <u>Acknowledged and agreed on behalf of XYZ Service Organisation by</u> (signed)

.....

Name and Title

Date

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Organisations for Investment Management Services	Formatted: Border: Bottom: (No border)
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Appendix 2, Section B	Formatted: Border: Bottom: (No border)
Example 3Section C: Engagement Letter for an Audit of a	
Statement	
To <u>the appropriate representative of management or {</u> those charged with <u>h</u> governance} of the <u>XYZ {</u> service organisation. $\frac{128}{3}$ }	
The objective and scope of the audit]	Formatted: Font: Italic
You ¹²⁹ have requested that we audit the [title of special purpose financial	Formatted: Font: Not Bold, Italic
statement of assets and liabilities] as at [date], and the [statement of	
ransactions] for the year then ended, concerning the assets [and liabilities or ransactions] of [user entity/ies] ¹³¹ [insert nature of investment management services: managed by or in the custody of]- $\frac{X}{X}$ 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 Statement.	Formatted: Font: Italic
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]- $\pm \times YZ$ 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 Statement.	Formatted: Font: Italic
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]- <u>XYZ</u> 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 Statement. [The responsibilities of the auditor]. We will conduct our audit in accordance with the <u>Australian</u> Auditing	Formatted: Font: Italic Formatted: Font: Not Bold, Italic
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]- <u>XYZ</u> 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 Statement. [<i>The responsibilities of the auditor</i>]. We will conduct our audit in accordance with the <u>Australian</u> Auditing Standards of the Auditing and Assurance Standards Board (AUASB), in particular ASA 402 Audit805 Special Considerations Relating to Entities	Formatted: Font: Not Bold, Italic
[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]+ <u>XYZ</u> 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 Statement. <i>[The responsibilities of the auditor]</i> . We will conduct our audit in accordance with the <u>Australian</u> Auditing Standards of the Auditing and Assurance Standards Board (AUASB), in particular ASA 402 Audit805 Special Considerations Relating to Entities Using Service Organisations – Audits of Single Financial Statement, and with	Formatted: Font: Not Bold, Italic
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]- <u>XYZ</u> 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 Statement. <i>[The responsibilities of the auditor]</i> . We will conduct our audit in accordance with the <u>Australian</u> Auditing Standards of the Auditing and Assurance Standards Board (AUASB), in particular ASA 402 Audit805 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	Formatted: Font: Not Bold, Italic
 The addressees and references in the letter would be those that are appropriate in the service or ganisation - Audits of <i>Special</i> Consideration. It is important to refer to the appropriate persons – see ASA 210 Paragraph A21. 	Formatted: Font: Not Bold, Italic
 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]-<u>XYZ</u> 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 Statement. <i>[The responsibilities of the auditor]</i>. We will conduct our audit in accordance with the <u>Australian</u> Auditing Standards of the Auditing and Assurance Standards Board (AUASB), in particular ASA 402 Audit805 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 	Formatted: Font: Not Bold, Italic Formatted: Font: Italic, Not Superscript/ Subscript Formatted: English (U.S.)
 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]+<u>XYZ</u> 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 Statement. <i>The responsibilities of the auditor</i>]. We will conduct our audit in accordance with the <u>Australian</u> Auditing Standards of the Auditing and Assurance Standards Board (AUASB), in particular ASA 402 Audit805 <i>Special</i> Considerations-Relating to Entities Using Service Organisations – Audits of Single Financial Statement, and with 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. Throughout this letter, references to "you," "we," "us," "management," "those charged with governance" and "auditor" would be used or amended as appropriate in the 	Formatted: Font: Not Bold, Italic Formatted: Font: Italic, Not Superscript/ Subscript

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 performancequantitative 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].] ThisAn 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 <u>internal</u> controls relevant to the <u>entity's XYZ Service Organisation's</u> 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 <u>entity'sXYZ</u> <u>Service Organisation's</u> controls¹³². However, we <u>expect-will communicate</u> to provide you with a separate letter in writing concerning any <u>material</u> <u>weaknesses in the design or implementation of</u> significant deficiencies in

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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."

Appendix 1, Section B1, Example 3

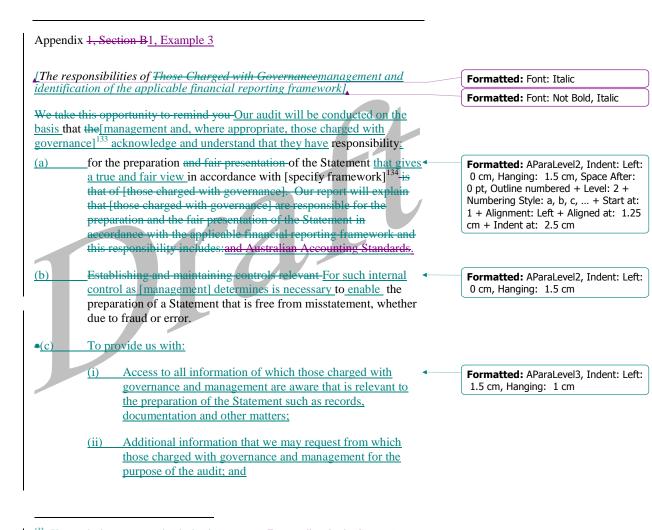
<u>internal</u> controls over financial reporting on behalf of [user entity], that come to our attention<u>we have identified</u> during the audit of the Statement.

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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¹³³ Use terminology as appropriate in the circumstances. For an audit under the Corporations
 <u>Act 2001</u>, the appropriate terminology is "the Directors".
 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".

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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 circumstance

As part of our audit process, we will request <u>from [management and, where appropriate, from those charged with governance]</u>, 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]]

We understand that our report may be incorporated in a report prepared by <u>XYZ {S</u>service Oerganisation] for distribution to the [Trustee/those charged with governance] of [user entity] for the purpose of fulfilling the [those charged with governance] of <u>XYZ {S</u>service Oerganisation]'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 <u>XYZ</u> {Sservice Oerganisation], [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.]

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

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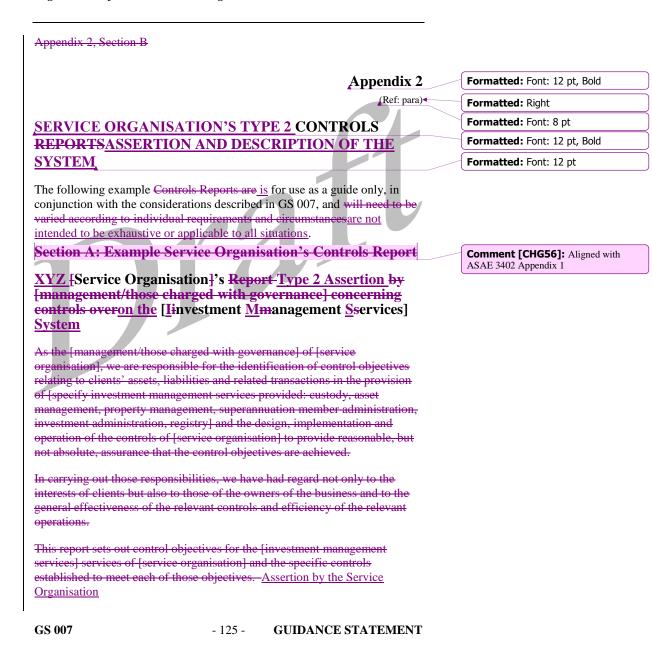
¹³⁵ Use of the report & liability limitation: insert additional wording, if any, required to reflect any liability arrangements agreed between the service auditor, the service organisation and other users, including confirmation of the purpose for which the service auditor's report has been prepared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

	Appendix 1, Section B <u>1</u> , Example 3	
1	Independence	Formatted: Font: Italic
1	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.	Formatted: Font: Not Bold, Italic
	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.	Formatted: Heading 6, Space After: 0 pt
	Please sign and return the attached copy of this letter to <u>indicate that it is in</u> accordance with your understandingyour acknowledgement of, and agreement with, the arrangements for our audit of the Statement <u>including</u> our respective responsibilities. Yours faithfully,	
	(signed)	
	Name and Title	
	Date	
	Partner	
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Appendix <u>1, Section B1, Example 3</u>
<u>Firm</u>
Acknowledged and agreed on behalf of [XYZ Service Oerganisation] by
(signed)
Name and Title
Date—

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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

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Appendix	1 Section	R2
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<u>Controls in Operation</u>].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

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

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

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

⁴³⁸-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 overthe [Investment Management Services] System Accompanying XYZ Service Organisation Management's Assertion

XYZ SERVICE ORGANISATION'S [INVESTMENT MANAGEMENT
SERVICES] SYSTEM

Services Provided

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].

The System,

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].

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

- <u>The procedures, within both information technology and manual</u> 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

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.

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Appendix 1, Section B2

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

 <u>{LB1}How_the_system_dealt_with significant events and conditions,</u> other than transactions.

• *[LB1]*The process used to prepare reports for customers.

[LB1]This may include a description of the flow of transactions or a <u>flowchart].</u>

[Controls at Subservice Organisations]¹⁴⁰

[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]. <u>XYZ-Service</u> 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 $\underline{XYZ} \underbrace{sService oOrganisation}$ throughout the period from [date] - to from [date] +, or during a lesser

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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.

Appendix 1, Section B 2	
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:	Formatted: No bullets or numbering
(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	Formatted
operating and the period during which the change was effective.] ¹⁴³	
[Complementary customer controls: Describe any complementary user entity controls contemplated in the design of the controls.] ¹⁴⁴	Formatted
[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	

¹⁴⁴ This section should be inserted for each control for which there are complementary use 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:

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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]"

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Appendix 3, Section A

Section B: Appendix 3*

(Ref: para)

Definitions and <u>MINIMUM CONTROL</u>ontrol OBJECTIVES FOR EACHbjectives for each Investment Management Service INVESTMENT MANAGEMENT SERVICE

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 <u>Controlsa Type 1 or 2</u> Report may reasonably expect to be addressed in the <u>sService oOrganisation's description of its</u> <u>system</u> <u>Controls Report</u> but are not intended to be exhaustive. It remains the responsibility of management, or those charged with governance, of <u>the</u> [service organisation] to ensure that the described control objectives are <u>sufficient to meet the likely to be relevant to customer's controls as they relate to financial reporting, expectations of user entities</u>. User entity/ies are referred to as client/s in these control objectives.

A. Custody

Definition:

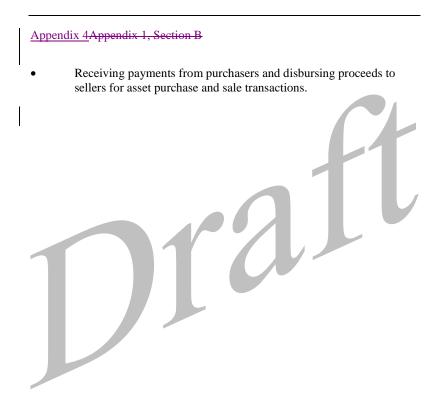
"Custody" is the performance of the following functions on behalf of user entities:

- 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.

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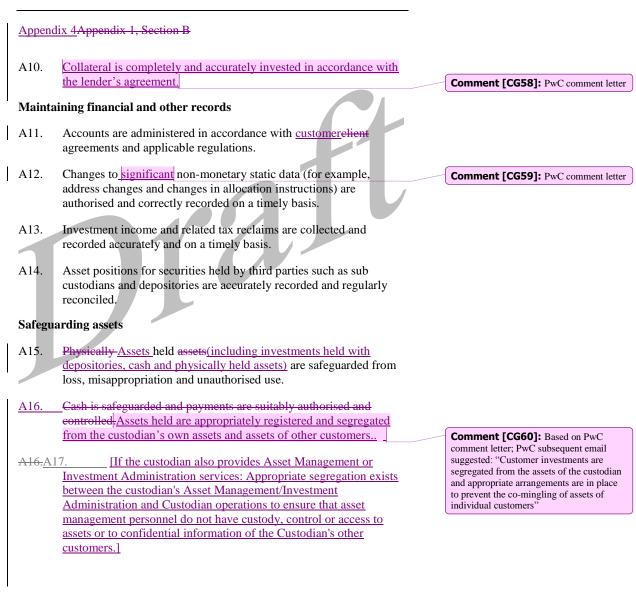
Appendix 4Appendix 1, Section B	
<u>Control Objectives:</u> Accepting clients customers	
A2. <u>A1.</u> Accounts are set up completely and accurately in accordance with <u>elient-customer</u> agreements and applicable <u>regulations</u> regulation, if <u>any</u> .	For Leve + St Alig
A3. <u>A2.</u> Complete and authorised <u>customerelient</u> agreements are established prior to initiating custody activity.	<u></u>
A4. <u>A3.</u> Investment holdings and related history (where applicable) transferred from prior custodians are received and recorded completely, accurately and on a timely basis.	Cor
Authorising and processing transactions	this
A5.A4. Investment and related cash and foreign exchange transactions are authorised and recorded completely, accurately and on a timely basis in accordance with <u>customerclient</u> 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. <u>A6.</u> Corporate events and voting instructions are identified, <u>actioned</u> , processed and recorded on a timely basis.	
<u>A8.A7.</u> Cash receipts and payments are authorised, processed and recorded completely, accurately and on a timely basis.	
A9. <u>A8.</u> 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?

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Monitoring compliance	
A17. <u>A18.</u> Sub-custodians and other out-sourced activities are approved and managed in accordance with the requirements of the <u>customerclient</u> agreement.	
A18.A19. Transaction errors are rectified promptly.	
Reporting	
A19. <u>A20.</u> CustomerClient reporting in respect of customerclient asset holdings is complete and accurate and provided within required timescales.	
A20. <u>A21.</u> 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 Organisations ¹⁴⁶	
A22. The controls at sub-custodians over custody of XYZ Service	Formatted: AParaLevel1
Organisation's customer's assets are operating effectively throughout the period.	Comment [CG61]: Only relevant where a controls report is available from the subservice organisation.
Information technology G.1 – G.14	Comment [CG62]: PAG to draft some control objectives to address sub-service orgs. Note overlaps with A.13 and A.18.

 $\frac{146}{\text{method is used to deal with subservice organisations.}}$

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B. Asset Management

Definition:

"Asset management" is the investment of money on behalf of client <u>customers</u> and involves the performance of the following functions:

- Initiating and executing purchase and sale transactions, either by specific direction from the <u>customerelient</u> or under discretionary authority granted by the <u>customer elient</u>.
- Determining whether transactions comply with guidelines and restrictions.
 - Reconciling records of security transactions and portfolio holdings, for each clientcustomer, to statements received from the custodian.
- Reporting to the <u>clientcustomer</u> 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.

Control Objectives:

Accepting clientcustomers

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

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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.

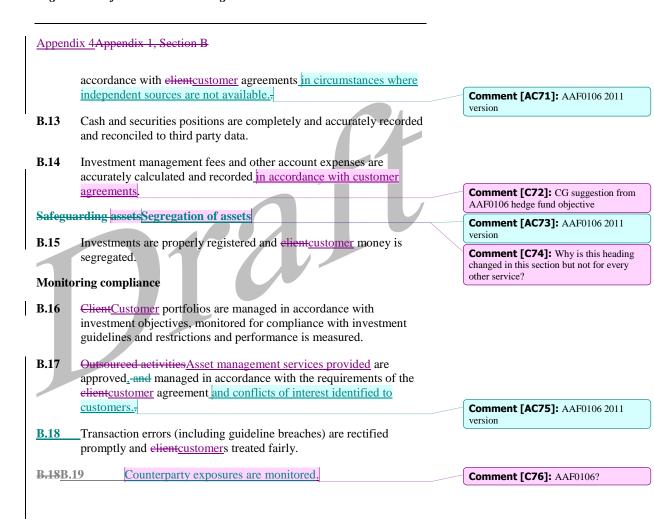
Comment [C64]: Does this adequately cover hedge funds constitutional agreements?

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

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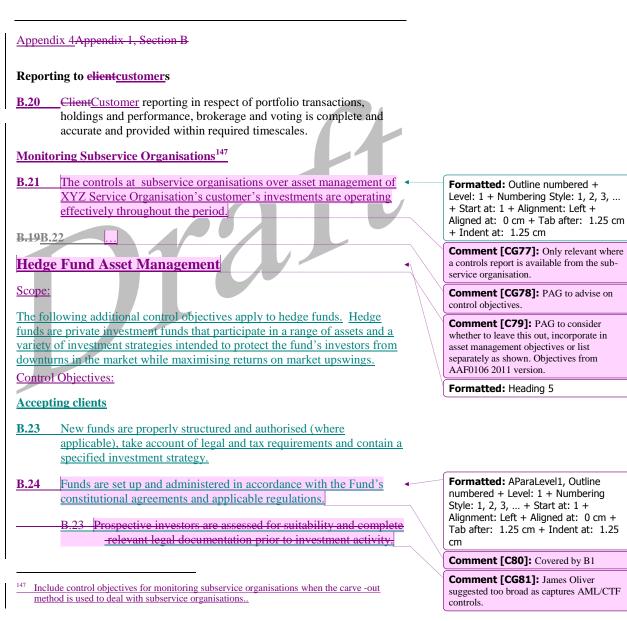
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B.3	Asset investment guidelines and restrictions are established and agreed prior to investment management activity.	Comment [CG66]: Covered by
B.3	For hedge funds: New hedge funds are properly structured and authorised (where applicable), take account of legal and tax	revisions to B2
Autho	requirements and contain a specified investment strategy.	Comment [C67]: Could incorporate Hedge fund objectives in this way - AAF0106 2011 version
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 <u>actioned, processed</u> and recorded accurately and in a timely manner.	
B.8	<u>ClientCustomer</u> new monies and withdrawals are processed and recorded completely and accurately, withdrawals are appropriately authorized	
	authorised.	Comment [AC68]: AAF0106 2011 version
Maint	aining financial and other records	
B.9	Accounts are administered in accordance with <u>elientcustomer</u> agreements.	
B.10	Changes to significant non-monetary elientcustomer data (for example, address changes and changes in allocation instructions) are authorised and correctly recorded on a timely basis.	Comment [CG69]: PwC comment let
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	
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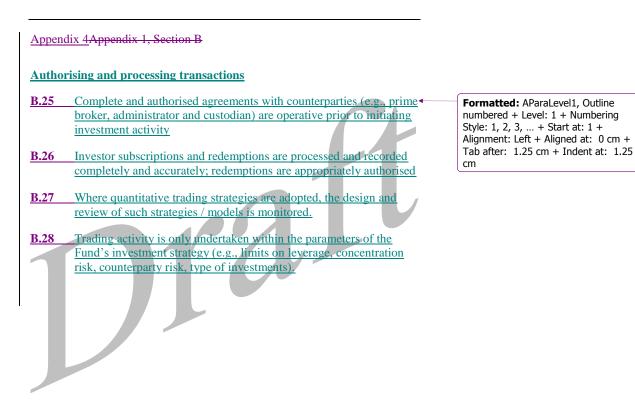
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Maintaining financial and other records		
<u>B.29</u>	Where reliable market price data is not available hard-to-value assets are valued using consistent valuation arrangements which mitigate conflicts of interest and are disclosed to investors.	Formatted: AParaLevel1, Outline numbered + Level: 1 + Numbering Style: 1, 2, 3, + Start at: 1 + Alignment: Left + Aligned at: 0 cm +
<u>B.30</u>	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.	Tab after: 1.25 cm + Indent at: 1.25 cm Comment [C82]: Covered by B12? Comment [C83]: Covered by B13?
<u>B.31</u> <u>B.32</u>	Lock-up periods, redemption gates and penalties are accurately applied in accordance with the Fund's constitutional agreements. Where hard-to-value assets are placed in side pockets, they are	Comment [C84]: Covered by B14?
<u>Safegu</u> B.33	appropriately identified and recorded in accordance with the Fund's constitutional agreements. arding, assets Liquidity management is undertaken with due regard to investor	Formatted: Font: Bold, Not Superscript/ Subscript
	subscriptions and redemptions, margin calls, terms and duration of bank borrowing and the payments due to creditors oring compliance	Formatted: Not Superscript/ Subscript
<u>B.34</u>	Portfolio liquidity is monitored in accordance with client instruction in order to meet redemption requests in a timely manner.	
<u>B.35</u>	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		
<u>D.30</u>	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 - Private Equity	asset management objectives or list separately as shown. AAF0106 2011 version.
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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.

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 <u>manner.</u>
- **B.43** Rights and obligation arising from an exit are recorded and monitored

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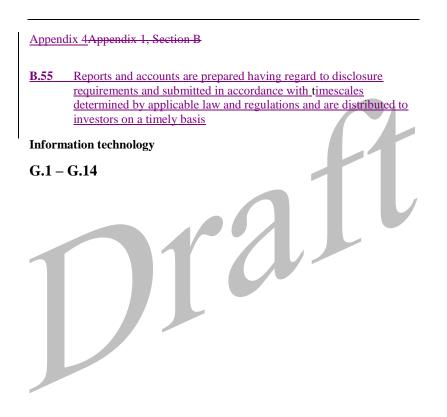
Comment [C87]: Shares in a company

Comment [AC88]: obtained from http://en.wikipedia.org/wiki/Private_equity http://www.investopedia.com/terms/p/privat eequity.asppriv

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<u>B.44</u>	Investment allocations are made in accordance with the terms of the partnership or supporting agreements
Mainta	ining financial and other records
<u>B.45</u>	Investment income and related tax are accurately recorded in the proper period
<u>B.46</u>	Investments are valued in accordance with relevant industry guidelines
<u>B.47</u>	Investor drawdowns and distributions are authorised, processed and recorded completely and accurately
<u>B.48</u>	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
<u>B.49</u>	Cash and investment positions are completely and accurately recorded and reconciled to third party data or documents of title held
<u>Safegu</u>	arding assets
B. 50	Investments are properly registered and securely held.
<u>B.51</u>	Uninvested cash is managed with due regard to diversification of risk and security of funds.
Monito	oring compliance
<u>B.52</u>	Investment performance is monitored.
<u>B.53</u>	Outsourced activities are properly managed and monitored and conflicts of interest identified to clients.
Report	ing to investors
<u>B.54</u>	Investor reporting is complete and accurate and provided within required timescales.

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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 <u>clientcustomer</u> or under discretionary authority granted by the <u>clientcustomer</u>.
- Determining whether transactions comply with guidelines and restrictions.
- Reconciling records of transactions for each <u>clientcustomer</u>, to statements received from the custodian.
- Reporting to the <u>clientcustomer</u> on performance and activities.

Control Objectives:

Accepting clientcustomers

- C.1 Accounts are set up completely and accurately in accordance with <u>clientcustomer</u> agreements and applicable regulations, if any.
- **C.2** Complete and authorised <u>clientcustomer</u> 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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- **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 <u>ClientCustomer</u> 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 <u>clientcustomer</u> agreements and applicable regulations.
- **C.13** Changes to significant non-monetary elientcustomer 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 value<u>rs</u>.
- **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.

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Comment [CG89]: PwC comment letter

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- 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 etectc. arising from the public where large shopping malls are owned).

Monitoring compliance

- **C.24** Client<u>Customer</u> portfolios are managed in accordance with investment objectives, monitored for compliance with investment guidelines and restrictions and performance is measured.
- C.25 Outsourced activities<u>Property management services provided</u> are approved and managed in accordance with the requirements of the client<u>customer</u> agreement.
- **C.26** Transaction errors (including guideline breaches) are rectified promptly and <u>clientcustomers</u> treated fairly.

Reporting to clientcustomers

<u>C.27</u> <u>ClientCustomer</u> reporting in respect of property transactions, holdings and performance is complete and accurate and provided within required timescales.

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Monitoring Subservice Organisations ¹⁴⁸	
C.28 The controls at subservice organisations over property management of XYZ Service Organisation's customer's property are operating effectively throughout the period.	Formatted: Indent: Hanging: 1.27 cm, Numbered + Level: 1 + Numbering Style: 1, 2, 3, + Start at: 1 + Alignment: Left + Aligned at: 0.63 cm + Indent at: 1.27 cm
Information technology	Comment [CG90]: Only relevant where a controls report is available from the subservice organisation.
G.1-G.14	Comment [CG91]: PAG to advise on control objectives.

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¹⁴⁸ Include control objectives for monitoring subservice organisations when the carve -out method is used to deal with subservice organisations..

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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.

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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 elientcustomers

- **E.1** Accounts for superannuation funds and sub-plans are set up completely and accurately in accordance with <u>clientcustomer</u> agreements and applicable regulations, <u>if any</u>.
- **E.2** Member accounts are set up completely and accurately in accordance with fund rules and individual investment and insurance elections.

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 <u>actioned and accurately</u> 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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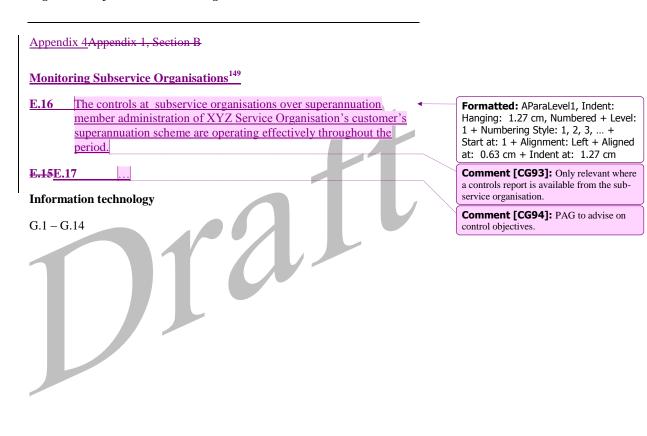
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	Appendix 4Appendix 1, Section B			
1	Maintaining member records			
l	E.8	Changes to members <u>members</u> significant standing data (for	Comment [CG92]: PwC comment letter	
		example, address changes and changes in allocation instructions) are authorised and correctly recorded on a timely basis.	Formatted: AParaLevel1, Indent: Hanging: 1.27 cm, Numbered + Level: 1 + Numbering Style: 1, 2, 3, +	
I	E.9	Investment earnings are accurately allocated (through crediting rates	Start at: 1 + Alignment: Left + Aligned	
		or unit pricing) to member accounts and in accordance with trustee directions and fund rules.	at: 0.63 cm + Indent at: 1.27 cm	
	Safegua	arding assets		
	E.10	Superannuation fund, sub-plan and member data is appropriately stored to ensure security and protection from unauthorised use.	Formatted: AParaLevel1, Indent: Hanging: 1.27 cm, Numbered + Level:	
	Monito	ring compliance	1 + Numbering Style: 1, 2, 3, + Start at: 1 + Alignment: Left + Aligned at: 0.63 cm + Indent at: 1.27 cm	
l	E.11	Contributions are received in accordance with fund rules and relevant legislation.	Formatted: AParaLevel1, Indent: Hanging: 1.27 cm, Numbered + Level: 1 + Numbering Style: 1, 2, 3, +	
	E.12	Transaction errors are identified, notified to members or trustees in accordance with <u>elientcustomer</u> agreements and rectified promptly if required.	Start at: 1 + Alignment: Left + Aligned at: 0.63 cm + Indent at: 1.27 cm	
l	E.13	Benefits payable and transfer values are calculated and paid in accordance with superannuation fund rules, relevant legislation and regulations.		
	E.14	Outsourced activitiesSuperannuation member administration provided to customers are is approved and managed in accordance with the requirements of the clientcustomer agreement.		
Reporting to client<u>customer</u>s				
	<u>E.15</u>	Annual member statements issued to members are accurate and complete and distributed on a timely basis.	Formatted: AParaLevel1, Indent: Hanging: 1.27 cm, Numbered + Level: 1 + Numbering Style: 1, 2, 3, + Start at: 1 + Alignment: Left + Aligned at: 0.63 cm + Indent at: 1.27 cm	

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¹⁴⁹ Include control objectives for monitoring subservice organisations when the carve -out method is used to deal with subservice organisations.

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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:

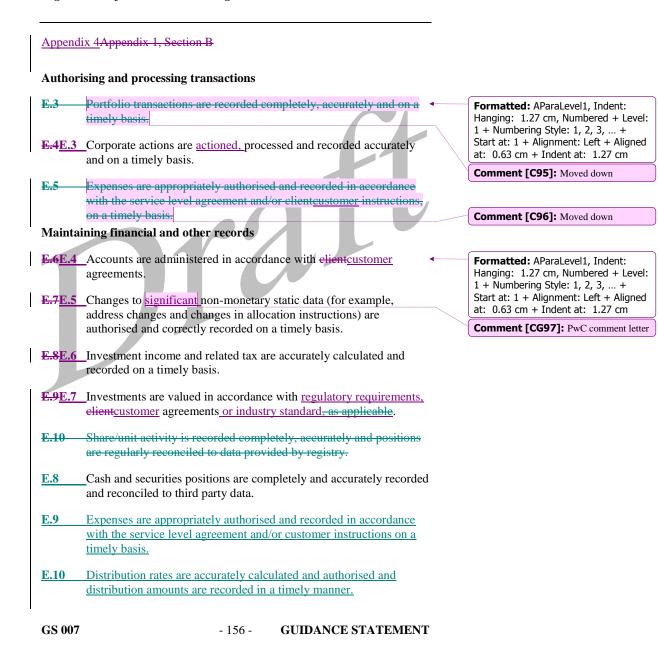
Accepting clientcustomers

- **E.1** Accounts are set up completely and accurately in accordance with <u>elientcustomer</u> agreements and applicable regulations<u>, if any</u>.
- **E.2** Complete and authorised <u>clientcustomer</u> agreements are established prior to initiating accounting activity.

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- **E.11** <u>Issue and cancellations of shares/units are recorded completely and accurately, and positions are regularly reconciled.</u>
- **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 <u>clientcustomers</u> and rectified promptly in accordance with <u>clientcustomer</u> agreements-
- **E.14** Outsourced Investment administration services provided to <u>customers activities</u> are approved and managed in accordance with the requirements of the <u>clientcustomer</u> agreement <u>and conflicts of</u> <u>interest identified to clients.</u>
- E.14E.15 Pricing and distribution rate errors are rectified in a timely manner.

Reporting to elientcustomers

- **E.15E.16** Periodic reports to <u>elientcustomers</u>, 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 allin accordance with instructions or advice received from the elientcustomer and/or their approved advisors) prior to processing tax information.

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Comment [CG98]: EY suggested objective.

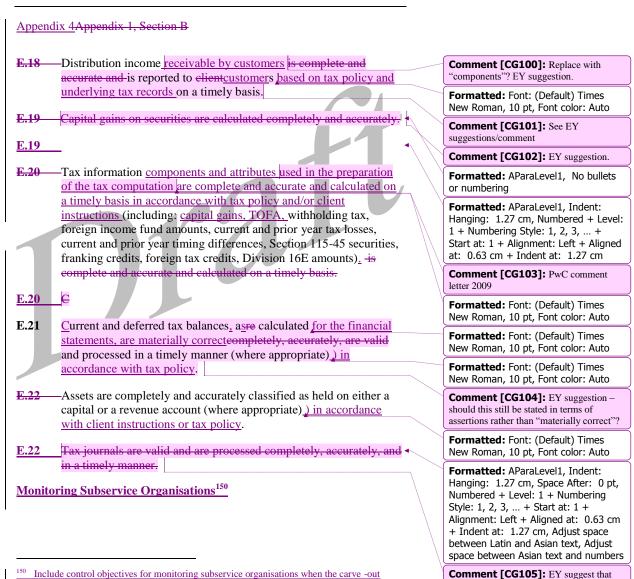
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Comment [CG99]: EY suggested amendment.

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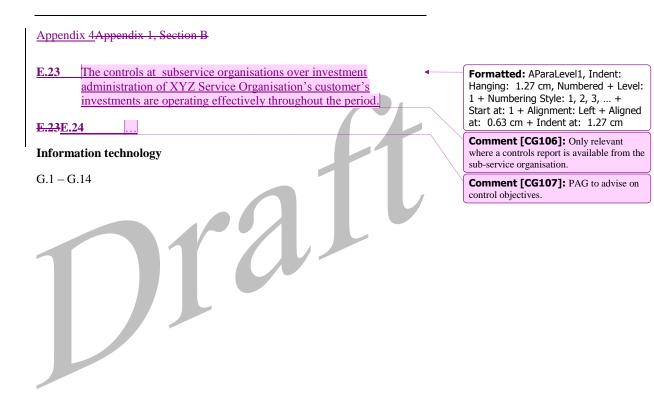


Include control objectives for monitoring subservice organisations when the carve -out method is used to deal with subservice organisations.

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covered by E21.



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F. Registry

Definition:

"Registry" is the performance of the following functions:

- Maintaining records of the name and address of each shareholder or unitholder <u>investing in the customer/issuer</u>, the amount of shares or units <u>in the customer</u> 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 clientcustomers

- **F.1** Accounts are set up completely and accurately in accordance with <u>clientcustomer/issuers</u> agreements.
- **F.2** Complete and authorised <u>clientcustomer</u> agreements are established prior to initiating accounting activity.

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Appen	dix 4Appendix 1, Section B	
F.3	Pooled fund unit holder activity is clearly established and recorded	
110	completely, accurately and in a timely manner.	Comment [CG108]: PwC comment
	rising and processing transactions	letter – delete; LMS provided amendment which was accepted but moved as does not
<u>F.3</u>	New share/unitholder activity is clearly established and recorded	relate to accepting customers.
F.4	completely, accurately and in a timely manner. Documents-Share/unitholder applications, redemptions and switches received are checked, sorted and distributed for processing in a timely manner.	Formatted: AParaLevel1, Indent: Hanging: 1.27 cm, Numbered + Level: 1 + Numbering Style: 1, 2, 3, + Start at: 1 + Alignment: Left + Aligned at: 0.63 cm + Indent at: 1.27 cm
F.5	Share/unitholder Investor transactions and adjustments are authorised, processed accurately, completely and in a timely manner.	Comment [CG109]: PwC comment letter – delete; LMS provided amendment which was accepted.
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, <u>Sshares/units</u> 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.	Comment [CG110]: Confirm wording
		with PAG.
Maint	aining financial and other records	
F.9	Accounts are administered in accordance with <u>clientcustomer</u> agreements.	Formatted: AParaLevel1, Indent: Hanging: 1.27 cm, Numbered + Level: 1 + Numbering Style: 1, 2, 3, +
F.10	Changes to significant non-monetary elientshare/unitholder data (for example, address changes and changes in allocation instructions) are	Start at: 1 + Alignment: Left + Aligned at: 0.63 cm + Indent at: 1.27 cm
	authorised and correctly recorded on a timely basis.	Comment [CG111]: PwC comment letter
F.11	Registrar records accurately reflect shares, units and cash held by	
F.12 F.	third parties.	Comment [CG112]: PwC comment letter 2009 suggests deleting – PAG to confirm if needed in an amended form.
	positions are regularly reconciled.	
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F.13F.12 Pooled funds are priced and administered accurately and in a timely manner in accordance with unitholders' agreements.

Safeguarding assets

F.14F.13 Lost and stolen certificates are recorded in a timely manner.

Monitoring compliance

F.15F.14 Transaction errors are identified, notified to elientcustomers ← and share/unit holders in accordance with elientcustomer agreements and rectified if necessary.

F.16F.15 Outsourced activities Registry services provided to <u>customers</u> are approved and managed in accordance with the requirements of the client<u>customer</u> agreement.

Reporting to *client*<u>customer</u>s

F.17F.16 <u>ClientCustomer</u> reporting is complete and accurate and processed within required timescales.

Taxation

- **F.18F.17** Distribution information is completely and accurately processed in the Registry system.
- **F.19F.18** Distribution payments are complete, accurate and processed in a timely manner.
- **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

Comment [CG113]: Check wording with PAG

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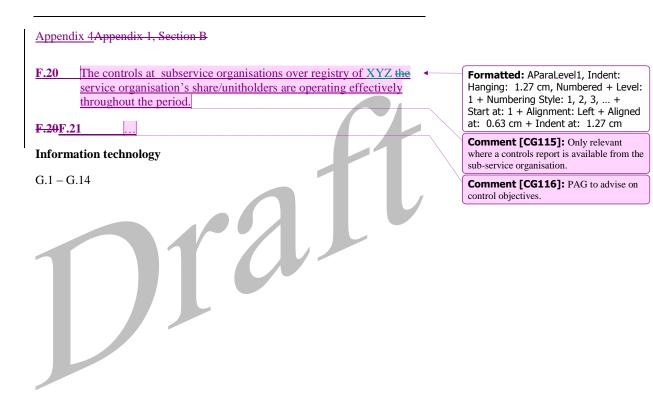
Comment [CG114]: Issues raised in PwC comment letters based on this being income not information – check with PAG if meaning clear enough.

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¹⁵¹ Include control objectives for monitoring subservice organisations when the carve -out method is used to deal with subservice organisations.

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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

fr G.2 <u>G.1</u> P	Client data is appropriately stored to ensure security and protection rom unauthorised use. Physical access to computer networks, equipment, storage media nd program documentation is restricted to authorised individuals.	Formatted: AParaLevel1, Indent: Hanging: 1.27 cm, Numbered + Li 1 + Numbering Style: 1, 2, 3, + Start at: 1 + Alignment: Left + Alig at: 0.63 cm + Indent at: 1.27 cm
	ogical access to computer systems, programs, master data,	Comment [CG117]: Covered by revised G.2
ao	ustomer data, transaction data and parameters, including access by dministrators to applications, databases, systems and networks, is estricted to authorised individuals via information security tools nd techniques.	
	egregation of incompatible duties is defined, implemented and nforced by logical security controls in accordance with job roles.	
Authorisi	ng and processing transactions	
	T processing is authorised and scheduled appropriately and xceptions are identified and resolved in a timely manner.	 Formatted: AParaLevel1, Indent: Hanging: 1.27 cm, Numbered + L 1 + Numbering Style: 1, 2, 3, +
Safeguard	ling assets	Start at: 1 + Alignment: Left + Alig at: 0.63 cm + Indent at: 1.27 cm
CCCL	appropriate managered including firewalls and anti-virus software	

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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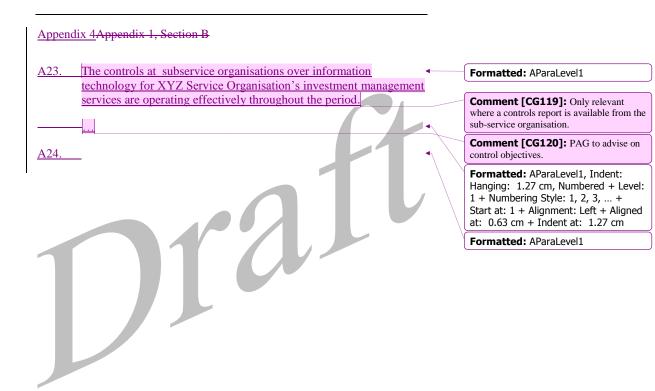
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¹⁵² InleudeInclude control objectives for monitoring subservice organisations when the carve out method is used to deal with subservice organisations.

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Appendix 4Appendix 1, Section B	
Section C: Example Appendix 4	Formatted: Font: 12 pt, Bold
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SERVICE AUDITOR'S TVPE 2 Service Auditor's Type B	Formatted: Font: 8 pt
SERVICE AUDITOR'S TYPE 2Service Auditor's Type B Controls ASSURANCE REPORTeport	Comment [CHG121]: Align with ASAE 3402 Appendix 2
Independent <u>Service Auditor's Assurance Report on the Description of</u>	Formatted: Font: 10 pt, Bold
Controls over [Investment Management Services], their Design and Operating Effectiveness	Formatted: Font: 10 pt, Bold
To: <u>the [management/those charged with governance] of XYZ [S</u> service	Formatted: Font: 10 pt, Bold
Oerganisation	
Scope	Formatted: Font: 10 pt
Report on the Controls over [Investment Management Services]	Formatted: Font: Bold
We have been engaged to report on XYZ Service Organisation's description	Formatted: Normal
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 clientcustomers throughout the period [date] to [date]	
(the description),("the controls"), and on the design, implementation and	
operationng effectiveness of those controls related to in achieving the control	
objectives, stated in the description. ⁴⁵³ 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

⁴⁵³—If some elements of the description are not included in the scope of the engagement, this is made clear in the assurance report.

 $\frac{154}{10}$ 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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organisation]'s objectives in the provision of [investment management services] by [service organisation].

XYZ Service Organisation's Management's Responsibilitiesy

[Management/those charged with governance] of XYZ -[sService oOrganisation] 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 theidentification 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 thatto 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.

Service Auditor's Responsibilitiesy

Our responsibility is to form an independentexpress an opinion, based on the assurance work carried out in relation to the controls over- on XYZ [sService Θ 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].

We conducted our engagement in accordance with Standards on Assurance Engagements <u>ASAE 3402</u> <u>Assurance Reports on Controls at a Service</u> <u>Organisation</u>, issued by the Auditing and Assurance Standards Board. <u>That</u> <u>standard requires that we comply with relevant ethical requirements and plan</u> <u>and perform our procedures to obtain reasonable assurance about whether, in</u> <u>all material respects, the description is fairly presented and the controls are</u> <u>suitably designed and operating effectively.</u> Formatted: Font: 10 pt Formatted: Font: 10 pt Formatted: Space After: 0 pt

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Comment [C122]: Confirm that ref to GS 007 appropriate.

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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 oriteria 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

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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.¹⁵⁵

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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¹⁵⁵ 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.

Appendix 4Appendix 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. Formatted: Font: Bold, Not Italic

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Auditor's Opinion

In oOur 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 objectives 150 .

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

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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.

Appendix 4Appendix 1, Section B

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]

[<u>Service Aa</u>uditor'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: Cross reference to the control objectives and allied controls,¹⁵⁷ 1 Formatted: Superscript intended to achieve those objectives described in the sservice oOrganisation's description of its systemControls Report. Assessment of the accuracy fair presentation of the description and 2. the suitability of the design, including: identification of any inadequacies, omissions or (c)(b) inaccuracies in the description of control objectives; identification of any inaccuracies in the description of (d)(c) controls, as designed and implemented; and. Assessment of the suitability of the design, including identification (e)3. Formatted: ParaLevel1, Indent: of any inadequacies in the design of the controls to achieve their Hanging: 1.27 cm, Numbered + Level: 1 + Numbering Style: 1, 2, 3, ... + stated objectives. Start at: 1 + Alignment: Left + Aligned at: 0.63 cm + Indent at: 1.27 cm 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. Tests of operating effectiveness, including: 4.

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¹⁵⁷ If applicable, complementary user entity controls would also be described.

Appendix <u>1, Section B5</u> (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 <u>XYZ</u> <u>S</u>ervice <u>O</u>erganisation] 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.

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2. Inspection:

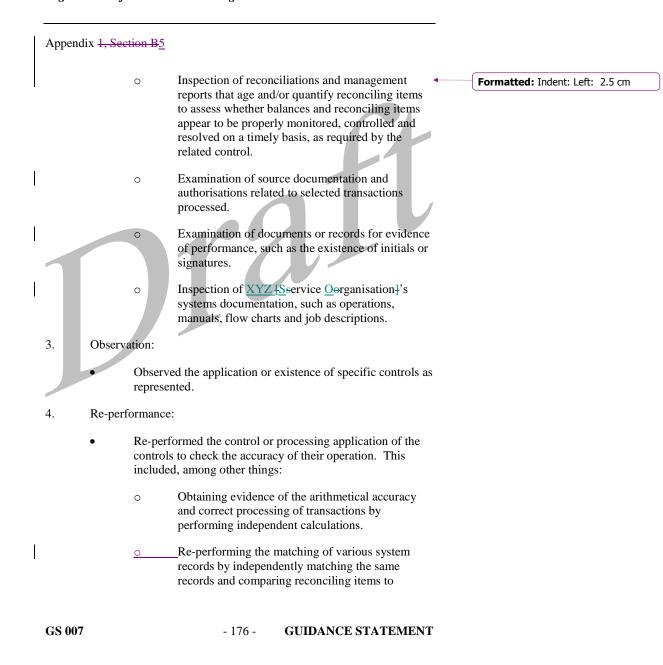
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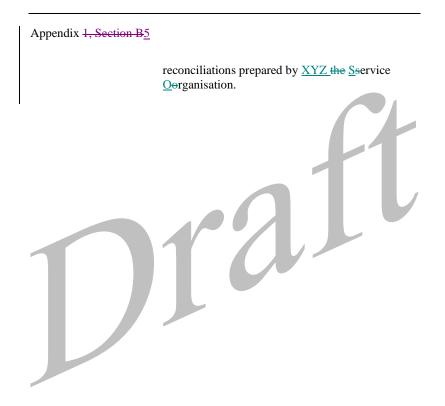
Inspected documents and records indicating performance of the controls. This included, among other things:

Corroborating evidence of the controls.

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Appendix 3, Section A	
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SPECIAL PURPOSE ILLUSTRATIONS OF	Formatted: Font: 12 pt, Bold, Not Highlight
SERVICE AUDITOR'S REPORTS ON	Formatted: Font: 8 pt, Not Highlight
FINANCIAL INFORMATION	Formatted: Font: 14 pt, Bold
The following example Special Purpose Service Auditor's Reports are for use	Formatted: Font: 14 pt, Bold
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	Formatted: Font: Bold, All caps
To [those charged with governance] of [service organisation] <u>XYZ Service</u> Organisation regarding [user entity]	Formatted: All caps
Report on Specified Assertions of Assets [and liabilities or transactions] in the Statement ¹⁵⁸	Formatted: Font: 10 pt, Bold
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 <u>special purpose</u> financial <u>reportstatement</u>] ("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 <u>[serviceXYZ Service</u>]	
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.	

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¹⁵⁹ Where the assets are held in the name of a nominee holding company insert "held in the name of [nominee holding company]".

Appendix 1, Section B₆, Example 1

<u>O</u>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.

Appendix 1, Section B6, Example 1

The <u>Management's</u> Responsibility of [Those Charged with Governance]⁴⁶¹-for the Statement

[XYZ Service Oorganisation] 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 AuditingThose Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance <u>about</u> whether the assets [and liabilities or transactions] set out in the Statement are free of material misstatement in respect of the specified audit assertions.

 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.
 Insert "complicable Australian Accounting Standards" where multiple Australian

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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".

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 Oorganisation]'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

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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."

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 <u>specify assertions</u> audited] in respect of the assets <u>[and liabilities or transactions]</u> in the <u>accompanying</u> Statement but may be material when aggregated with any uncorrected misstatements identified by <u>[user entity]</u>'s Auditor, are listed in an attachment to this report. These uncorrected misstatements do not affect our audit opinion.]

⁶⁶ 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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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 <u>{XYZ S</u>ervice Oerganisation] 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

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]

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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.

Appendix 1, Section B₆, Example 1

[Attachment: Uncorrected Misstatements¹⁶⁹

In the course of conducting our audit procedures at **[** XYZ Service Oorganisation] 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 Oorganisation] and their auditors and they do not affect our audit opinion:

[Insert: List of uncorrected misstatements]

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¹⁶⁹ Include attachment where uncorrected misstatements were identified.

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Appendix 1, Section BAppendix 6, Example 2

Section B: Example 2: Service Auditor's Report on a Statement

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 <u>financial</u> 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 <u>or transactions</u>] of [user entity]¹⁷² for which <u>{XYZ S</u>service <u>O</u>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. <u>The Statement has been prepared on the basis of accounting described in note X.</u>

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.

 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. Formatted: English (U.S.)

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Comment [CHG124]: Align with ASA 800 Appendix

Appendix 1, Section BAppendix 6, Example 2

XYZ [Service Oorganisation] 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 to the preparation and fair presentation of the Statement, 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 AuditingThose Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance <u>about</u> 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 Service Oorganisation]'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

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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".

Appendix 1, Section BAppendix 6, Example 2

of expressing an opinion on the effectiveness of <u>XYZ</u> [Service Oorganisation]'s controls¹⁷⁷. <u>An audit also includes evaluating the</u> 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 [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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Appendix 1, Section BAppendix 6, Example 2

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 <u>{XYZ S</u>ervice Oerganisation] provides [investment management service] services, in accordance with <u>in accordance</u> 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 Trustec/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

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".

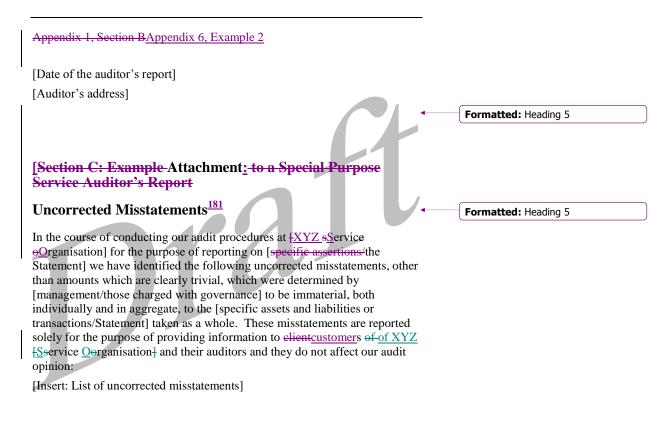
¹⁸⁰ Use of the report & liability limitation: insert additional/alternative wording, if any, required to reflect any liability arrangements agreed between the service auditor, the service organisation and other users, including confirmation of the purpose for which the service auditor's report has been prepared and the basis on which other parties may use the report.

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¹⁸¹ Include attachment where uncorrected misstatements were identified.

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