

GS 007
(March 2008)

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

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



Australian Government

Auditing and Assurance Standards Board

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CONTENTS

	Paragraphs
AUTHORITY STATEMENT	
Application.....	1
Issuance Date	2
Introduction.....	3
Types of Reports	4-7
Services Relevant to this Guidance Statement.....	8-14
A: Guidance for the User Auditor.....	15
Obtaining an Understanding of the User Entity and its Environment.....	16-17
Assessing the Risks of Material Misstatement and Designing Further Audit Procedures	18-19
Using a Type A Controls Report.....	20-25
Responding to Assessed Risks of Material Misstatement.....	26-30
Using a Type B Controls Report.....	31-35
Controls Reports Issued on a Different Reporting Date to the User Entity's Financial Report.....	36-43
Assessing Exceptions Reported or a Modified Opinion on Controls.....	44-45
Using a Special Purpose Service Auditor's Report.....	46-54
Materiality for Special Purpose Service Auditor's Reports	55-56
Communicating with the Service Auditor.....	57-58
Communicating with Those Charged with Governance of the User Entity	59-62

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

	Paragraphs
B: Guidance for the Service Auditor	
Types of Engagements	63
Engagements to Report on Controls	
<i>Nature of Engagement</i>	64-65
<i>Acceptance and Continuance of Engagements to Report on Controls</i>	66-70
<i>Responsibilities of the Service Organisation</i>	71-75
<i>Management’s Report on the Service Organisation’s Controls</i>	76-79
<i>Complementary User Entity Controls</i>	80-81
<i>Service Organisations That Use Sub-service Organisations</i>	82-84
<i>Service Auditor’s Procedures</i>	85
<i>Planning</i>	86-89
<i>Management Representations</i>	90-92
<i>Accuracy of the Description of Controls</i>	93-95
<i>Suitability of Design</i>	96-97
<i>Implementation of Controls</i>	98
<i>Operating Effectiveness</i>	99-100
<i>Nature, Timing and Extent of Tests of Operating Effectiveness of Controls</i>	101-103
<i>Documentation</i>	104-107
<i>Subsequent Events</i>	108-110
<i>Assurance Report on Controls</i>	111-112
<i>Describing Tests of Operating Effectiveness</i>	113-115

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

	Paragraphs
<i>Reporting Exceptions</i>	116-119
<i>Modified Opinions</i>	120-121
<i>Using the Work of Others</i>	122-124
Special Purpose Audit Engagements	125-127
<i>Acceptance and Continuance of a Special Purpose Audit Engagement</i>	128
<i>Independence</i>	129-133
<i>Special Purpose Service Auditor's Reports</i>	134
<i>Information Excluded from the Special Purpose Service Auditor's Report</i>	135
<i>Reporting of Matters of Governance Interest Arising in a Special Purpose Audit Engagement</i>	136-139
Materiality to be Applied by the Service Auditor	
<i>Controls Engagements</i>	140-141
<i>Special Purpose Audit Engagements</i>	142-144
Conformity with International Pronouncements	145

APPENDIX 1: ENGAGEMENT LETTERS

Section A: Example Engagement Letter for an Assurance Engagement to Report on a Service Organisation's Controls

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

Section C: Example Engagement letter for an Audit of a Statement

APPENDIX 2: CONTROLS REPORTS

Section A: Example Service Organisation's Controls Report

Section B: Definitions and Control Objectives for each Investment Management Service

Section C: Example Service Auditor's Type B Controls Report

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

Section D: Service Auditor's Description of the Nature, Timing and Extent of Tests Applied to Controls

APPENDIX 3: SPECIAL PURPOSE SERVICE AUDITOR'S REPORTS

Section A: Example Service Auditor's Report on Specified Assertions

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

Section C: Example Attachment to a Special Purpose Service Auditor's Report

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* as set out in paragraphs 1 to 145 and Appendices 1 to 3, pursuant to section 227B of the *Australian Securities and Investments Commission Act 2001*, for the purpose of providing guidance on procedural 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 details and suggested procedures on specific matters for the purpose of understanding and complying with AUASB standards. The auditor exercises professional judgement when using this Guidance Statement.

This Guidance Statements does not prescribe or create mandatory requirements.

Dated 12 March 2008

M H Kelsall
Chairman - AUASB

GUIDANCE STATEMENT GS 007

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

Application

- 1 This Guidance Statement applies to:
 - (a) auditors (user auditors) of entities which use service organisations to provide investment management services; and
 - (b) auditors (service auditors) of those service organisations, who provide audit and assurance reports which may be used as audit evidence in the audit of the user entity's financial report.

Issuance Date

- 2 This Guidance Statement is issued on 12 March 2008 by the Auditing and Assurance Standards Board (AUASB) and replaces AGS 1026 *Superannuation Funds – Auditor Reports on Externally Managed Assets*. It is operative for reporting periods commencing on or after 1 July 2008.

Introduction

- 3 This Guidance Statement has been formulated by the AUASB to provide guidance 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:
 - i. the services provided form part of the user entity's information system relevant to financial reporting;
 - ii. audit evidence required by the user auditor, regarding internal controls and/or assertions, is located at the service organisation; and
 - iii. reports on controls at the service organisation and/or a service auditor's report on a special

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

purpose financial report of the user entity's balances or transactions relating to the services provided by the service organisation, are available.

Part A of this Guidance Statement (paragraphs 15-62) provides guidance to the user auditor on the application of Auditing Standard ASA 402 *Audit Considerations Relating to Entities Using Service Organisations* in the above circumstances.

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

Part B of this Guidance Statement (paragraphs 63-144) provides guidance to the service auditor on the application of Standard on Assurance Engagements ASAE 3000 *Assurance Engagements Other Than Audits or Reviews of Historical Financial Information* when reporting on controls and Auditing Standard ASA 800 *The Auditor's Report on Special Purpose Audit Engagements* when reporting on special purpose financial reports.

Types of Reports

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

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

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

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

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

(b) **Special Purpose Service Auditor's Reports**, prepared in accordance with ASA 800, comprising either:

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

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

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

Table 1: Service Auditor's Reports

Title of Report	Subject Matter Covered by Report	Circumstances for Which Report is Used by User Auditors	Relevant Standards	Appendix Reference for Examples
Controls Reports				
1. Type A Controls Report	Design and implementation of controls at the service organisation.	Planning: Obtaining an understanding of the user entity and its environment, including controls over services provided by the service organisation, in order to assess the risk of material misstatement and design further audit procedures. This report cannot be relied on to reduce substantive procedures.	User Auditor: ASA 402 & ASA 315 Service Auditor: ASAE 3000	Engagement letter: Appendix 1 Section A Service Auditor's Controls Report: No example provided as use is limited to planning
2. Type B Controls Report	Design, implementation & operating effectiveness of controls at the service organisation.	Planning: Obtaining an understanding of the user entity and its environment: as for Type A Controls Reports. Responding to the assessed risks of material misstatement: require evidence of the operating effectiveness of controls, over the services provided, at	User Auditor: ASA 402 & ASA 330 Service Auditor:	Engagement letter: Appendix 1 Section A Service Organisation's Controls Report: Appendix 2 Sections

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

Title of Report	Subject Matter Covered by Report	Circumstances for Which Report is Used by User Auditors	Relevant Standards	Appendix Reference for Examples
		the service organisation.	ASAE 3000	A & B Service Auditor's Controls Report: Appendix 2 Section C
Special Purpose Service Auditor's Reports				
3. Service Auditor's Report on Specified Assertions	Specified assertions regarding balances or transactions of the user entity reported in a Statement.	Require evidence from procedures conducted at the service organisation regarding certain assertions with respect to balances or transactions of the user entity, reported in a Statement.	Service Auditor: ASA 800	Engagement letter: Appendix 1 Section B Service Auditor's Report: Appendix 3 Section A
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	Engagement letter: Appendix 1 Section C Service Auditor's Report: Appendix 3 Section B

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

- 6 The guidance in this Guidance Statement is based on engagements to provide an opinion based on reasonable assurance, however, it may be adapted, as necessary in the circumstances, to an engagement to provide a review conclusion based on limited assurance. 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.
- 7 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 and no further guidance on agreed-upon procedures engagements is provided in this Guidance Statement. Agreed-upon procedures engagements may be appropriate in certain circumstances to provide evidence that the user auditor deems necessary, for example when:
- A Type B Controls Report is provided, however the user auditor requires more evidence with respect to controls over a specified area, such as unit pricing.
 - Provision of service auditor reports is not agreed in the service level agreement or contract, but the user auditor nevertheless requires selected controls to be assessed at the service organisation.
 - 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.

Services Relevant to this Guidance Statement

- 8 This Guidance Statement has been developed specifically for circumstances where service organisations provide investment management services to user entities, where those services are part of the user entity's information system, including business processes, relevant to financial reporting, including:
- Custody.

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

- Asset Management.
- Property Management.
- Superannuation Member Administration.
- Investment Administration.
- Registry.

Each of these services is defined in Appendix 2 Section B.

- 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, transferred to the general ledger and reported in the user entity's financial report;
 - (c) the related accounting records, whether electronic or manual, supporting information and specific accounts in the user entity's financial report, that are used to initiate, record, process and report the user entity's transactions, this includes the correction of incorrect information and how information is transferred to the general ledger;
 - (d) how the user entity's information system captures events and conditions, other than transactions, that are significant to the financial report;
 - (e) the financial reporting process used to prepare the user entity's financial report, including significant accounting estimates and disclosures; and
 - (f) controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments.
- 10 This Guidance Statement does not apply to services provided by a service organisation which are limited to processing of a user entity's transactions that are specifically authorised by the user entity, such as the processing of securities transactions by a broker.

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

In addition, this Guidance Statement does not apply to the audit of transactions arising from proprietary financial interests in other entities such as partnerships, corporations and joint ventures, when proprietary interests are accounted for and reported to interest holders.

- 11 Although this Guidance Statement has been written in the context of the service organisation providing any of the investment management services specified in paragraph 8, user and service auditors may use this Guidance Statement, as appropriate, where the service organisation provides other services which are part of the user entity's information system relevant to financial reporting.
- 12 Types of service organisations which provide some or all of these investment management services include:
- Custodians.
 - Third Party Administrators.
 - Investment Managers.
 - Registrars.
 - Trust Departments of Financial Institutions.
- 13 The responsible parties which typically engage the services of these service organisations on behalf of user entities, include but are not limited to:
- Trustees for Superannuation Funds.
 - Responsible Entities for Registered Managed Investment Schemes.
 - Trustees for Unregistered Unit Trusts.
 - Boards of Insurance Companies.
- 14 The responsibilities of the responsible party of a user entity are set out in the relevant laws and regulations governing their role and the particular services they oversee.

A: Guidance for the User Auditor

- 15 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

- 16 In obtaining an understanding of the user entity and its environment, ASA 402 requires the user auditor to determine the significance of the service organisation's activities to the user entity and the relevance to the audit. In doing so, the user auditor determines:
- (a) the nature and materiality of the transactions processed or accounts affected by the service organisation;
 - (b) the degree of interaction between the activities of the user entity and those of the service organisation; and
 - (c) the nature of the relationship between the user entity and the service organisation, including the contractual terms applying to the services provided by the service organisation.
- 17 The user auditor considers the contract and/or service level agreement between the user entity and service organisation, along with information from other sources, such as user manuals, system overviews and technical manuals.

Assessing the Risks of Material Misstatement and Designing Further Audit Procedures

- 18 Where the user auditor concludes that the investment management services provided by the service organisation are significant to the user entity and relevant to the audit, the user auditor, in order to identify and assess the risks of material misstatement and design further audit procedures, considers matters such as:

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

- The effectiveness of the user entity's monitoring controls over the outsourced investment management services. The less effective the monitoring controls at the user entity, the greater the level of enquiry the user auditor undertakes in relation to the service organisation's controls.
- The accuracy and timeliness of the reports and information received from the service organisation in previous periods. The user entity may rely on the financial information contained in the Statement from the service organisation in the preparation of their financial report. Past inaccuracies may increase the assessed risk of material misstatement with respect to particular assertions such as completeness, rights and obligations and valuation.
- The occurrence of control weaknesses 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.
- 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.
- 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.

19 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, then a Type A or a Type B Controls Report is not necessary.

Using a Type A Controls Report

- 20 In planning the audit of the user entity, the user auditor may be unable to obtain a sufficient understanding of the user entity and its environment in order to identify and assess the risks of material misstatement and to design further audit procedures, from the information available at the user entity regarding the services provided by the service organisation. In which case, the user auditor can either use a Type A Controls Report, on design and implementation of controls, or, where possible, visit the service organisation to obtain the information required, under ASA 402.
- 21 In applying ASA 402, it may be more efficient for all parties concerned if the user auditor obtains a Controls Report rather than visiting the service organisation. A Type A Controls Report is sufficient for this purpose, however, if an appropriate Type B Controls Report is already available, this also contains the information required.
- 22 The service organisation may provide Controls Reports to user entities prepared under legislation or auditing standards applicable in another jurisdiction, to meet its statutory or other reporting requirements or under the service level agreement with user organisations in that jurisdiction. Reports on controls prepared under the reporting framework of another jurisdiction may also meet the needs of domestic user entities and user auditors where those reports include the equivalent evidence which would be contained in a Type A Controls Report.
- 23 In order to obtain a sufficient understanding of the user entity's internal control to plan the audit, the user auditor considers available reports on controls at the service organisation, along with information obtained at the user entity to:
- (a) understand aspects of the service organisation's controls that may affect the processing of the user entity's transactions; and
 - (b) understand the flow of significant transactions of the user entity through the service organisation.
- 24 In assessing the risks of material misstatement and designing further audit procedures, the user auditor uses the Controls Report to:
- (a) identify the control objectives and allied controls in the Service Organisation's Controls Report which are relevant

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

- to assertions regarding the user entity's balances or transactions being audited by the user auditor;
- (b) determine whether it provides sufficient appropriate audit evidence that the relevant controls are suitably designed to achieve the identified control objectives to prevent or detect processing errors that could result in material misstatements in the user entity's financial report, if those controls were operated effectively; and
 - (c) determine whether the user auditor will seek to rely on certain controls to reduce the level of substantive procedures by obtaining evidence of the operating effectiveness of those controls.
- 25 A Type A Controls Report cannot be relied upon to reduce the level of substantive procedures conducted by the user auditor, as it does not provide any evidence of the operating effectiveness of those controls. Consequently, the usefulness of a Type A Controls Report to a user auditor is limited to planning the audit, assessing the risk of material misstatement and designing further audit procedures.

Responding to Assessed Risks of Material Misstatement

- 26 When the user auditor's risk assessment includes an expectation of the operating effectiveness of the service organisation's controls, or when substantive procedures conducted at the user entity alone do not provide sufficient appropriate audit evidence at the assertion level, guidance in ASA 402 states that the user auditor may require audit evidence from tests of controls. ASA 402 also provides three methods of obtaining audit evidence of the operating effectiveness of controls over the investment management services provided by the service organisation, either:
- (a) performing tests of the user entity's monitoring controls over the activities of the service organisation;
 - (b) obtaining a Type B Controls Report on the design, implementation and operating effectiveness of the service organisation's controls over services relevant to the audit; and/or
 - (c) visiting the service organisation and performing tests of controls.
- 27 Method (a) above, performing tests of user entity controls, may be effective on its own only if there is a high degree of interaction

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

between the activities of the service organisation and the user entity. Tests of this kind could include testing the user entity's independent re-performance of selected items processed by the service organisation or testing the user entity's reconciliation of output reports with source documents. Typically there is a low level of interaction between the activities of the service organisation and the user entity where investment management services are provided, in which case this method may be only effective in combination with method (b) or (c).

- 28 Method (c) ordinarily is not efficient for all parties involved, where a service organisation provides investment management services to numerous user entities, because it involves multiple user auditors individually visiting the service organisation. Therefore this Guidance Statement does not provide any further guidance on method (c) for gathering evidence of the operating effectiveness of controls.
- 29 Method (b) ordinarily is the most efficient method of gathering evidence of operating effectiveness of controls, where the service auditor conducts controls testing at the service organisation for use by multiple user auditors. Consequently, this Guidance Statement is based on the expectation of the provision of a Type B Controls Report regarding investment management services provided to user entities.
- 30 If reports on controls are prepared under legislation or auditing standards applicable in another jurisdiction, those reports may also meet the needs of domestic user entities and user auditors where those reports include the equivalent evidence which would be contained in a Type B Controls Report.

Using a Type B Controls Report

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

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

- 32 In addition to using a Type B Controls Report in planning the audit, assessing the risks of material misstatement and designing further audit procedures as described in paragraph 23 and 24, the user auditor evaluates the usefulness and appropriateness of a Type B Controls Report as audit evidence that the service organisation's controls are operating effectively for certain assertions regarding the user entity's balances or transactions. In doing so, the user auditor applies the requirements in ASA 402 and in particular:
- (a) Considers the sufficiency and appropriateness of the evidence provided by the Controls Report about the operating effectiveness of controls intended to prevent or detect material misstatements for relevant assertions.
 - (b) Considers whether:
 - i. each of the control objectives specified in this Guidance Statement for the relevant investment management service/s have been addressed in the Service Organisation's Controls Report;
 - ii. the related controls identified have been reported on by the service auditor; and
 - iii. adequate justification has been provided by the service organisation for any control objectives for which no related controls are identified.
 - (c) Considers complementary user entity controls, if any, including those identified in the Service Organisation's Controls Report.
 - (d) Assesses the testing performed by the service auditor and the results of the tests, relevant to assertions regarding the user entity's balances or transactions.
 - (e) Considers the professional competence of the service auditor in the context of the specific assignment undertaken.
 - (f) Considers whether the service organisation has used a sub-service organisation/s in providing investment management services to the user entity and, if so, whether the relevant controls of the sub-service organisation have been included in the Service Organisation's Controls Report. If they have not, the user auditor considers whether the services of the sub-service organisation are significant to the user entity

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

and, if so, whether a Type A or B Controls Report is required from the sub-service organisation.

- 33 A Type B Controls Report addresses the controls of the service organisation over the specified investment management service/s generally and not specifically the transactions or services relating to an individual user entity. Consequently, if the user auditor intends to use such a report, the user auditor considers the relevance of the stated control objectives and controls to the user entity and determines which additional procedures and/or assurance, if any, may be required in gathering sufficient appropriate audit evidence with respect to transactions and balances of the user entity related to the investment management services provided.
- 34 A Type B Controls Report, containing an unmodified opinion, ordinarily provides the user auditor with sufficient appropriate audit evidence as to the reliability of controls over the investment management services provided by the service organisation to the user entity and accordingly may enable the user auditor to reduce the extent of substantive testing that might otherwise have been necessary with respect to the balances or transactions subject to those services.
- 35 A Type B Controls Report does not eliminate the need for substantive procedures altogether, as ASA 330 requires the auditor, irrespective of the assessed risk of material misstatement, to design and perform substantive procedures for each material class of transactions, account balance and disclosure.

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

- 36 The reporting date of the user entity may differ from the period end for which the service organisation issues a Type A or B Controls Report. The longer the interval between the last date for which a Controls Report is available and the reporting date of the user entity ("the interval"), the less assurance the Controls Report provides. Where the reporting dates differ, the user auditor 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 In determining the procedures to perform, the user auditor considers:
- (a) the length of the interval;

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

- (b) the results of the risk assessment; and
 - (c) the availability of information concerning controls relating to the interval, including Controls Reports issued after the user entity's balance date.
- 38 The user auditor considers the assessed risks of material misstatement relating to the services provided by the service organisation and exercises professional judgement in determining the extent of additional procedures required to obtain sufficient appropriate audit evidence. Examples of the type of procedures which the user auditor might conduct for different length intervals are detailed in paragraphs 39 to 43, however the user auditor adjusts these procedures depending on the assessed risks.
- 39 For a Type A Controls Report, the user auditor conducts procedures to determine whether there have been changes to the service organisation's controls in the interval. These procedures may include:
- Discussions with those charged with governance, management or others within the user entity in a position to know about changes at the service organisation.
 - A review of relevant documentation and correspondence with the service organisation.
 - Discussions with those charged with governance, management or others within the service organisation or with the service auditor.
- 40 If the user auditor determines that there have been changes in the service organisation's controls in the interval which may be significant to the user entity's audit, the user auditor seeks to gain an understanding of the changes and considers the effect of those changes on the assessed risks of material misstatement and on the design of further audit procedures.
- 41 For a Type B Controls Report on design, implementation and operating effectiveness of controls, where the interval is short, such as a period of up to three months, the user auditor may conduct the procedures listed in paragraph 39 to identify any changes in the controls described in the Type B Controls Report. In addition, the user auditor may seek a written representation from the service organisation regarding the continued operating effectiveness of controls identified in the Type B Controls Report and the operating effectiveness of any new controls implemented during the interval,

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

particularly those relevant to the user entity's audit. Further tests of the operating effectiveness of those controls may be necessary where the changes implemented are significant to the audit of the user entity.

- 42 For a longer interval, such as in excess of three months, up to and including six months, in addition to conducting the procedures in paragraph 41, the user auditor may request the user entity to obtain evidence from the service organisation that the controls are still in place and that any new controls are operating effectively. This may take the form of a service auditor's review or an agreed-upon procedures engagement.
- 43 For a long interval, such as in excess of six months, the user auditor considers the sufficiency and appropriateness of the available audit evidence and, where further evidence is required, the user auditor:
- Conducts alternative audit procedures.
 - Requests that the user entity to obtain a new Type B Controls Report under this Guidance Statement from the service organisation.
 - Visits the service organisation to gather the evidence required.

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 Exceptions Reported or a Modified Opinion on Controls

- 44 Controls Reports are prepared for the purposes of multiple user entities, not specifically for the purposes of any individual user auditor. Exceptions noted by the service auditor or a modified opinion in the Service Auditor's Controls Report do not imply that the Service Auditor's Controls Report is not useful for the audit of the user entity's financial report. Rather, the exceptions and the matter giving rise to a modified opinion in the Service Auditor's Controls Report are considered in the user auditor's assessment of the results of the testing of controls performed by the service auditor.
- 45 The user auditor makes the user auditor's own assessment of the materiality, in relation to the user entity, of the control exceptions identified in the Service Auditor's Controls Report in determining

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

whether those exceptions amount to material weaknesses to be reported to those charged with governance as described in paragraph 59 and in deciding on an appropriate response. 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 46 to 54.

Using a Special Purpose Service Auditor's Report

- 46 Whilst the user auditor may be able to rely on a Type B Controls Report as audit evidence of the operating effectiveness of controls to mitigate identified risks of material misstatement, a Type B Controls Report alone cannot provide sufficient appropriate audit evidence with respect to material balances or classes of transactions of the user entity. ASA 330 requires the user auditor to design and perform substantive procedures for each material class of transactions, account balance and disclosure. The manner in which substantive procedures may be conducted is discussed in paragraphs 48 and 49.
- 47 Service organisations which provide investment management services may provide the user entity with a statement of financial information of the user entity (a "Statement") periodically in accordance with a financial reporting framework designed to meet the needs of the user entity. Examples of a Statement include: a portfolio valuation report, a financial report or a component of a financial report. The requirements of the applicable financial reporting framework determine the form and content of the Statement. An un-audited Statement is an unverified source of evidence, which is a representation not independent from the user entity. If the financial report of the user entity has been prepared using un-audited financial information obtained from the service organisation, such information may not constitute sufficient appropriate audit evidence on which the user auditor could form an opinion.
- 48 The user auditor's procedures at the user entity with respect to the balances and transactions relating to the services provided by the service organisation may be limited to:
- A review of the contract or service level agreement between the user entity and the service organisation so as to understand the rights and obligations of each party.
 - A review and evaluation of the monitoring controls exercised by the user entity over the service organisation.

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

- 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 A or B Controls Report on the relevant investment management services, may not generate sufficient appropriate audit evidence.

- 49 The user auditor exercises professional judgement to determine whether procedures conducted at the user entity as described in paragraph 48, considered alone or in combination with a Type A or B Controls 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 Special Purpose Service Auditor's Report; or
 - (b) gains access to the records and other information relating to the user entity in the possession of the service organisation.
- 50 As with the Controls 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 is the more effective or efficient method of obtaining the audit evidence required by the user auditor. If the user auditor is able to specify whether the service auditor prepares a Special Purpose Service Auditor's Report, the user auditor must exercise professional judgement to make this determination in the particular circumstances of the engagement.
- 51 A Service Auditor's Report on a Statement, as defined in paragraph 4(b)ii, may be the most effective way to obtain sufficient appropriate audit evidence for all assertions regarding the user entity's balances or transactions contained in the Statement provided by the service organisation. This type of report may also be required by the user

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

auditor if there is a potential or identified significant weakness in the service organisation's controls, or there are material errors identified in the service organisation's reports.

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

- (a) for transactions or events: occurrence, completeness, accuracy, cut-off and classification;
- (b) for balances: existence, rights and obligations, completeness, valuation and allocation; and
- (c) for presentation and disclosure: occurrence, rights and obligations, completeness, classification and understandability and accuracy and valuation.

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

53 In evaluating the audit evidence provided by a Special Purpose Service Auditor's Report, the user auditor considers:

- (a) the professional competence of the service auditor in the context of the assignment conducted;
- (b) the sufficiency and appropriateness of the evidence, whether on its own or in conjunction with a Controls Report, provided by the Service Auditor's Special Purpose Report regarding the assertions on which evidence is required;
- (c) the impact of any modification to the Service Auditor's Special Purpose Report on the sufficiency and appropriateness of the evidence provided by the report;

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

- (d) the effect of any uncorrected misstatements reported by the service auditor in an attachment to their report, as described in paragraph 138; and
 - (e) the effect of any matters of governance interest identified during the audit or reported by the service organisation to the user entity.
- 54 In order to determine whether any matters of governance interest have come to the attention of the service auditor in relation to the services provided by the service organisation to the user entity, the user auditor considers any report or communication from the service organisation detailing these matters or, in the absence of such a report, the user auditor requests the user entity to inquire about whether any matters of governance interest have been communicated by the service auditor to the service organisation as described in paragraph 119 or paragraph 137.

Materiality for Special Purpose Service Auditor's Reports

- 55 Paragraphs 142 to 144 of this Guidance Statement provide an appropriate basis for the service auditor to determine materiality for auditing specified assertions or a Statement. The user auditor, in making a preliminary assessment of materiality, under Auditing Standard ASA 320 *Materiality and Audit Adjustments*, may determine that the quantitative materiality level which would be determined by the service auditor in applying this Guidance Statement is not suitable for the purposes of the audit of the user entity's financial report. In these circumstances, the user auditor may request that an alternative benchmark and/or percentage is used by the service auditor to determine quantitative materiality. The manner in which such a request is ordinarily communicated is discussed in paragraphs 57 and 58.
- 56 The user auditor makes the user auditor's own assessment of the materiality of any uncorrected misstatements communicated by the service auditor in the attachment, if any, to the Special Purpose Service Auditor's Report provided as described in paragraph 138, with respect to the audit of the user entity's financial report.

Communicating with the Service Auditor

- 57 Ordinarily, the user auditor does not communicate directly with the service auditor, communication is through the user entity and service organisation. The user auditor communicates requirements with respect to the service auditor's work as early as possible to the user entity. These requirements are then communicated by the user

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

entity to the service organisation, either under the terms of a contract or service level agreement 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.

- 58 The user auditor's engagement letter may contain requirements for the user entity to obtain from the service organisation, where possible, Controls Reports or Special Purpose Service Auditor's Reports.

Communicating With Those Charged With Governance of the User Entity

- 59 The user auditor is required under the Auditing Standards to communicate the following matters to those charged with governance, or the appropriate level of management, of the user entity:
- (a) material weaknesses in internal control identified during the audit (ASA 315);
 - (b) audit matters of governance interest (Auditing Standard ASA 260 *Communication of Audit Matters with Those Charged with Governance*);
 - (c) uncorrected misstatements aggregated by the user auditor during the audit that were determined by management to be immaterial, both individually and in aggregate, to the financial report taken as a whole (ASA 260); and
 - (d) fraud or information that indicates that a fraud may exist (Auditing Standard ASA 240 *The Auditor's Responsibility to Consider Fraud in an Audit of a Financial Report*).
- 60 In determining whether there are any matters which the user auditor needs to report to those charged with governance of the user entity, as outlined in paragraph 59, with respect to the investment management services provided by the service organisation, the user auditor's procedures may include:
- A review of documentation and correspondence at the user entity regarding oversight and monitoring of the performance of the contract and/or service level agreement by the service organisation.

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

- Enquiries of those charged with governance, management or others within the user entity regarding whether any of the matters listed in paragraph 59 have been reported by the service organisation to the user entity.
 - Identification of any exceptions reported by the service auditor in the Controls Report and evaluation of whether those exceptions are material to the user entity.
 - Enquiries regarding the reasons for any modification to the Service Auditor's Controls or Special Purpose Report.
 - Identification of any uncorrected misstatements reported by the service auditor, in an attachment to the Special Purpose Service Auditor's Report as described in paragraph 138 of this Guidance Statement.
- 61 The user auditor may request the user entity to inquire about whether any matters of governance interest that may affect the user entity have been communicated by the service auditor to the service organisation as described in paragraphs 119 or 137. A service organisation may be required under the contract or service level agreement with the user entity to disclose matters including those listed in paragraph 59 that may affect the user entity.
- 62 Where the user auditor does not have sufficient information regarding the matters of governance interest to fulfil the user auditor's responsibility as outlined in paragraph 59, the user auditor may request further information to be provided. Whilst this information may be provided by the service auditor, the request is ordinarily made through the user entity.

B: Guidance for the Service Auditor

Types of Engagements

- 63 Under a contract or service level agreement, the service organisation may agree to provide periodically the user entity with a Type A or B Controls Report 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.

Engagements to Report on Controls

Nature of Engagement

- 64 Service auditor's engagements to report 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 Organisation's Controls Report (subject matter information) against control objectives (criteria). The service auditor applies the requirements and considers the guidance in ASAE 3000 when conducting assurance engagements on controls.
- 65 The control objectives collectively reflect the level of control over user entities' balances or transactions that the user entity could reasonably expect from the service organisation for the purpose of the user entity's financial reporting. The service organisation's controls are designed to meet those control objectives. Appendix 2 Section B sets out the control objectives which the user entity can expect to be included in Type A or B Controls Reports for each of the relevant investment management services. The service organisation may choose to include additional control objectives in the Controls Report. Additional control objectives may be included where those objectives are relevant to user entities' financial reporting or to meet compliance reporting requirements or the terms of the service level agreement or contract.

Acceptance and Continuance of Engagements to Report on Controls

- 66 The scope and purpose of the engagement between the service auditor and the service organisation needs to be clearly understood and agreed. This understanding and agreement is identified in the

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

terms of engagement, set out in an engagement letter, or some other form of written communication, which include:

- (a) the objective and scope of the work to be performed by the service auditor;
- (b) the service auditor's responsibilities to:
 - i. conduct the engagement in accordance with Standards on Assurance Engagements and with reference to this Guidance Statement,
 - ii. conduct tests and enquiries to form an opinion on the design, implementation (and, for Type B Controls Reports, operating effectiveness) of the controls contained in the Service Organisation's Controls Report either as at period end (for Type A Controls Reports) or for the period (for Type B Controls Reports), and
 - iii. provide a written report on the design, implementation (and, for Type B Controls Reports, operating effectiveness) of the controls identified in the Service Organisation's Controls Report either as at period end (for Type A Controls Reports) or throughout the period (for Type B Controls Reports);
- (c) management's, or those charged with governance's, acknowledgement of their responsibility for the matters identified in paragraph 74;
- (d) the agreed use of the report and the extent to which, the context in which, and the basis on which, the report may be made available by the service organisation to user entities and user auditors;
- (e) an explanation of the inherent limitations of the work, and for whom the work is being undertaken;
- (f) an overview of the assurance approach and assurance procedures which are to be encompassed by the service auditor's work; and
- (g) a reference to the likely need for management representations.

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

An example of an engagement letter for engagements to report on controls is shown at Appendix 1 Section A.

- 67 ASAE 3000 requires the service auditor to comply with the requirements of the applicable code of professional conduct of a professional accounting body¹. The service auditor only accepts an engagement when the service auditor is satisfied that relevant ethical requirements are met. This includes ensuring that the engagement team collectively possesses the necessary professional competencies and meets the applicable independence requirements.
- 68 In order to meet independence requirements of the applicable code of professional conduct of a professional accounting body, the service auditor assesses likely threats to independence and, where necessary, applies safeguards.
- 69 Since the service auditor is engaged to report on the controls over specified 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, ordinarily it is sufficient for the service auditor to meet independence requirements with respect to the service organisation when engaged to report on controls over investment management services at the service organisation. However, threats to independence may arise with respect to user entities where there are only one or few user entities for the services subject to audit or sub-service organisations where the controls of the sub-service organisation are included in the Service Organisation's Controls Report, under the inclusive method described in paragraph 83.
- 70 Service auditors may also need to consider the manner in which their Controls 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 Report are contained in Appendix 1 Section A and Appendix 2 Section C respectively.

Responsibilities of the Service Organisation

- 71 It is for management, or, where appropriate, those charged with governance, of the service organisation to decide whether to prepare

¹ 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.

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

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

- 72 The service organisation typically prepares one Controls Report to meet the needs of all user entities of a particular investment management service or services. The Service Auditor's Controls Report covers investment management services provided to user entities which are likely to form part of those user entities' information systems relevant to financial reporting. The value of a Type A Controls Report to the audit of the user entity is limited, so it is appropriate for the service auditor to prepare a Type A Controls Report only in the first year of reporting on controls, to provide a starting point for future reports, or if none of the user entities require a report on the operating effectiveness of controls. Circumstances in which the user auditor may require a report only on design and implementation of controls are set out in paragraph 20. Since these circumstances are limited, an example of this report is not provided in this Guidance Statement.
- 73 The frequency with which the service organisation prepares Controls Reports may be agreed in the contract and/or service level agreement between the user entity and the service organisation.
- 74 In relation to an engagement to report on controls as described in this Guidance Statement, the service auditor can reasonably expect management, or those charged with governance, of the service organisation to be responsible for:
- (a) provision of investment management services to user entities;
 - (b) identification of the control objectives relevant to the financial reporting of clients to whom investment management services are provided by the service organisation;

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

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

75 In order to evaluate the effectiveness of controls, the service organisation uses the minimum control objectives for the relevant investment management service or services provided in Appendix 2 Section B as suitable criteria. It is the responsibility of management, or those charged with governance, of the service organisation to ensure that the control objectives are sufficient to meet the expectations of user entities and that any omissions or amendments

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

to the minimum control objectives are appropriate. A service organisation may therefore consider the need to add further objectives and supporting controls where appropriate.

Management's Report on the Service Organisation's Controls

- 76 Typically, under the contract or service level agreement the service organisation agrees to provide user entities with a Type A or B Controls Report, in the manner set out in this Guidance Statement, 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 objectives²; and
 - iii. for Type B Controls Reports, the controls described were operating effectively throughout the specified period;
 - (c) details of any significant deficiencies or exceptions and their impact on the control objectives during the period;
 - (d) the name and signature of a representative of management, or those charged with governance, signing on behalf of the service organisation;
 - (e) the date of the report; and

² 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".

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

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

An example of a Service Organisation's Controls Report is shown at Appendix 2 Section A.

- 77 Management, or those charged with governance, is responsible for the completeness, accuracy, validity and method of presentation of the description of control objectives and controls. The description of controls includes controls that may be relevant to user entities. The service auditor may assist the service organisation in preparing the description; however, the representations in the description are the responsibility of management, or those charged with governance, of the service organisation.
- 78 The description of control objectives and controls does not necessarily address every service provided by the service organisation. The description presents a level of detail that may provide sufficient information for the user auditor to assess the risk of material misstatement and to design further audit procedures in response to the assessed risk and, in the case of Type B Controls Reports, to assess the operating effectiveness of the controls as if a service organisation were not used. However, the description of controls need not be so detailed as to enable compromise of security or other controls.
- 79 The service organisation may wish to present other information that is not a part of the description of control objectives and controls in

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

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

- 80 In rare circumstances, specific controls at the service organisation may be designed with the assumption that user entities have certain complementary controls in place in order to achieve the specified objectives. If this is the case, the description of the controls at the service organisation refers to such complementary internal controls of user entities ("complementary controls").
- 81 Complementary controls at the user entity may include general controls, such as the authorisation of transactions, the written notification of changes, the timely review of reports provided by the service organisation or appropriate restrictions on access to on-line terminals.

Service Organisations That Use Sub-service Organisations

- 82 When a service organisation uses another service organisation ("sub-service organisation") to perform certain aspects of the services provided to user entities, the service organisation includes a description of the functions and nature of the processing performed by the sub-service organisation in the Service Organisation's Controls Report. The description provides sufficient detail for the user entity and the user auditor to understand the significance of the sub-service organisation's operations to the processing of the user entity's transactions.
- 83 The sub-service organisation's controls may be included in the service organisation's description and in the scope of the service auditor's engagement ("the inclusive method"). The sub-service organisation's controls are clearly differentiated from the controls of the service organisation. Under the inclusive method, the control objectives addressed in the report include all of the control objectives which both the service organisation and the sub-service organisation are expected to achieve. To accomplish this, the service organisation co-ordinates the preparation and presentation of the description of controls with the sub-service organisation.

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

- 84 In certain limited circumstances, the user entity may agree that the sub-service organisation's relevant control objectives and allied controls are to be excluded from the service organisation's description and from the scope of the service auditor's engagement ("the exclusive method"). For example, if the user entity has a contract and/or service level agreement directly with the sub-service organisation under which Controls 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

- 85 In reporting on the Service Organisation's Report on Controls, the service auditor seeks to obtain sufficient appropriate evidence regarding:
- (a) the accuracy of management's, or those charged with governance's, description of controls;
 - (b) the suitability of the design of the controls to achieve their stated objectives;
 - (c) whether the controls have been implemented; and
 - (d) whether the controls operated effectively throughout the specified period, for Type B Controls Reports.

Planning

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

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

- 87 In order to gain an understanding of the services provided by the service organisation, the service auditor may conduct procedures such as:
- Discussing aspects of the control framework and relevant controls with management and other personnel of the service organisation.
 - Determining the predominant types of user entities and the nature of the services provided by the service organisation to those user entities.
- 88 As part of planning the engagement, ASAE 3000 requires the service auditor to assess the appropriateness of the subject matter, which are the controls described in the Service Organisation's Controls Report. ASAE 3000 provides requirements and guidance on assessing the subject matter.
- 89 Under ASAE 3000, the service auditor also assesses the suitability of the control objectives, being the criteria for the assurance engagement. In doing so the service auditor considers whether:
- (a) the control objectives include all of the control objectives from Appendix 2 Section B for the services covered by the engagement, and whether the reason for any omissions is acceptable; and
 - (b) additional control objectives specified by management, or those charged with governance, are suitable by determining if they meet the characteristics of relevance, completeness, reliability, neutrality and understandability, as required by ASAE 3000.

Management Representations

- 90 The service auditor may request management, or those charged with governance, to provide written representations that it acknowledges and understands its responsibilities, and that it has disclosed to the service auditor any of the following of which it is aware, including:
- Illegal acts, fraud or uncorrected errors attributable to the service organisation's management or employees that may affect one or more user entities.
 - Design deficiencies in controls, including those for which management believes the cost of corrective action may exceed the benefits.

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

- Instances where controls have not operated with sufficient effectiveness to achieve the specified control objectives and whether such matters have been communicated to user entities.
 - Subsequent events which are likely to have a significant effect on user entities.
- 91 The service auditor may also request management, or, those charged with governance, to provide a written representation whether they believe that all records, documentation, unusual matters of which they are aware, and other information relevant to the assurance engagement have been made available to the service auditor.
- 92 Written representation may be in the form of a representation letter addressed to the service auditor, ordinarily issued at the same date as the Service Organisation’s Controls Report. The service auditor considers the requirements and guidance in ASAE 3000 in using the representations of management.

Accuracy of the Description of Controls

- 93 The service auditor’s procedures to assess the accuracy of the description of the service organisation’s controls may include:
- “Walk-through” tests of selected transactions and control procedures.
 - Observing the procedures performed by the service organisation’s personnel.
 - Reviewing the service organisation’s policy and procedure manuals and other systems documentation, for example, flowcharts and narratives.
 - Determining whether the description is likely to provide sufficient information for user entities to obtain an understanding of those aspects of the service organisation’s controls that could reasonably be expected to be relevant to user entities’ internal controls as they relate to financial reporting.
 - Determining whether the relevant services of any sub-service organisations are adequately identified and differentiated from the service organisation’s controls and included in the Service Organisation’s Controls Report, if appropriate, as described in paragraph 83.

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

- 94 The service auditor compares their understanding of the controls at the service organisation with management's, or those charged with governance's, representations made in the Service Organisation's Controls Report to determine the accuracy of the description. Accurately described controls do not omit or distort significant information that may affect user entities' assessments of control risk.
- 95 Accurately described controls also include a complete set of associated control objectives, including the control objectives for the relevant investment management service/s contained in Appendix 2 Section B or, for any objectives which have been excluded, the reasons why those objectives are not relevant. If there are any unjustified omissions or misstatements with regard to the control objectives, the service auditor asks management, or those charged with governance, to amend the description. If it is not amended, the service auditor considers the reasons, if known, for the omission or misstatement and the effect on the Service Auditor's Controls Report.

Suitability of Design

- 96 A control is designed suitably if individually, or in combination with other controls, it is likely to prevent or detect errors that could result in the non-achievement of specified control objectives when the described controls are operating effectively.
- 97 The service auditor's assessment of the suitability of the design of the controls includes consideration of the relevance of the controls to the associated control objectives and the ability of the controls to prevent or detect fraud or errors that could result in failure to achieve those control objectives. The service auditor may use flowcharts, questionnaires, decision tables, documents and reports, as well as make enquiries of appropriate service organisation personnel and observation of the application of specific controls, to determine whether they are suitably designed to achieve the specified control objectives and if they are operated as prescribed, by appropriately qualified or experienced persons.

Implementation of Controls

- 98 In determining whether the controls have been implemented, the service auditor conducts such tests as:
- Enquiry of appropriate service organisation personnel.
 - Performance of "walk-through" tests of controls.

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

- Review of systems documentation.
- Inspection of documents and reports.

Operating Effectiveness

- 99 When preparing a Type B Controls Report, the service auditor performs tests of the relevant controls to obtain evidence about the operating effectiveness of the controls throughout the specified reporting period. The service auditor designs the nature, timing and extent of tests of operating effectiveness with the objective of determining whether and how a control procedure is applied, the consistency with which it is applied, by whom it is applied and how exceptions identified by operation of the control are addressed.
- 100 Where the service auditor is unable to test a described control procedure because, for example, it has not operated during the year, the service auditor states the fact that no tests have been carried out and the reason in the description of tests attached to the Controls Report and considers whether this will affect their assurance opinion.

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

- 101 Tests of the operating effectiveness of controls, include:
- Enquiry of the appropriate personnel.
 - Observation of the application of the control procedure.
 - Inspection of relevant documentation evidencing operation of the control.
 - Re-performance of the control procedure.

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

- 102 The timing and extent of the service auditor's tests of controls varies with the nature of the controls being tested (for example, manual or automated), the frequency of the operation of those controls (for example, quarterly, monthly, daily or multiple times a day) and the service auditor's risk assessment (including the risk of failure of the control procedure that is being tested). Tests of operating effectiveness provide evidence that enables the service auditor to report on the entire period covered by the Controls Report. Certain controls may not have evidence of their operation that can be tested

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

subsequently and accordingly, the service auditor may need to observe the operation of such controls at various times throughout the reporting period.

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

Documentation

- 104 In preparing sufficient, appropriate and timely documentation under ASAE 3000, the service auditor's prepares documentation sufficient to enable an experienced assurance practitioner, having no previous experience with the assurance engagement, to understand:

- (a) the nature, timing and extent of the procedures performed;
- (b) the result of the procedures and the evidence obtained; and
- (c) significant matters arising during the engagement and the conclusions reached thereon.

- 105 In documenting the nature, timing and extent of assurance procedures performed, the service auditor records:

- (a) the identifying characteristics of the specific items or matters being tested;
- (b) who performed the procedures and the date such procedures were completed; and
- (c) who reviewed the work performed and the date and extent of such review.

- 106 The service auditor documents discussions of significant and relevant matters with the service organisation's representatives and other parties on a timely basis.

- 107 If the service auditor has identified information that contradicts or is inconsistent with the service auditor's final opinion regarding a significant matter, the service auditor documents how the service auditor addressed the contradiction or inconsistency in forming the final opinion.

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

Subsequent Events

- 108 The service auditor performs procedures designed to provide sufficient appropriate evidence that all matters subsequent to the period covered by the Service Organisation's Controls Report and up to the date of the Service Auditor's Controls Report that may have an impact on the opinion about the effectiveness of controls over investment management services are identified. These procedures may be limited to review of relevant reports, review of minutes of relevant committees and enquiry of management and other personnel. The service auditor considers the impact of any subsequent event identified and modifies the Service Auditor's Controls Report if appropriate.
- 109 The service auditor does not have any obligation to perform any procedures regarding the description of the system, control objectives and related controls, or the suitability of design or operating effectiveness of controls after the date of the Service Auditor's Controls Report.
- 110 The service auditor reads any other information included in a document containing the Service Organisation's Controls Report to identify material inconsistencies with the Service Auditor's Controls Report.

Assurance Report on Controls

- 111 The service auditor's opinion is expressed in a written assurance report on controls attached to the Service Organisation's Controls Report.
- 112 The Service Auditor's Controls Report, includes the basic elements of an assurance report as required by ASAE 3000, and, in addition, includes the following matters:
- (a) an identification of:
 - i. the investment management services conducted by the service organisation covered by the description;
 - ii. the Service Organisation's Controls Report on controls at the service organisation over investment management services provided to user entities;
 - iii. any parts of the service organisation's description which are not covered by the service auditor's

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

- opinion, such as any description of the service organisation's control environment, risk assessment, monitoring and information and communication processes; and
- iv. the period of time to which the description relates;
- (b) identification of management, or, where appropriate, those charged with governance, of the service organisation's responsibilities for:
- i. providing the specified investment management services;
- ii. identifying control objectives relevant to the financial reporting of user entities to whom the investment management services are provided;
- iii. the design, implementation and operation of the controls at the service organisation to provide reasonable assurance that the control objectives are achieved; and
- iv. the description of the control objectives and allied controls and the assertions about the controls in their report;
- (c) identification of the service auditor's responsibilities;
- (d) a statement that the engagement was performed in accordance with Standards on Assurance Engagements to obtain reasonable assurance so as to form an assurance opinion;
- (e) identification of user entities and their auditors as intended users of the report and the conditions of use;
- (f) a statement that:
- i. the operating effectiveness of controls at the service organisation is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected; and
- ii. the historic evaluation of the operating effectiveness of controls is not relevant to future periods due to the risk that they may become

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

inadequate because of changes in conditions, or that the degree of compliance with them may deteriorate;

- (g) if complementary user entity controls are identified in the Service Organisation's Controls Report, the fact that the service auditor has not evaluated the operating effectiveness of complementary user entity controls, and that if complementary user entity controls are not operating effectively, the service organisation's controls may not achieve the specified objectives;
- (h) if sub-service organisations are used by the service organisation, whether the description of control objectives, related controls, tests applied to those controls and the results of those tests includes the control objectives and related controls of relevant sub-service organisations;
- (i) the service auditor's opinion, expressed in the positive form, on whether:
 - i. the Service Organisation's Controls Report describes accurately the controls of the service organisation over the investment management services specified which were in place throughout the period ;
 - ii. the controls are suitably designed to achieve the specified control objectives (and if appropriate: the user entity applied any complementary controls identified);
 - iii. the controls were implemented; and
 - iv. the controls were operating effectively throughout the specified period.

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

Describing Tests of Operating Effectiveness

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

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

- 114 The service auditor uses the control objectives identified by the service organisation and the service organisation's description of the controls intended to achieve those objectives as a reference for describing the nature, timing and extent of tests carried out and the results of the tests in the attachment to the Service Auditor's Controls Report, although it is not necessary to list the controls and related control objectives in both the Service Organisation's Controls Report and in the Service Auditor's Controls Report. The service auditor describes tests of operating effectiveness that provide sufficient information to support the service auditor's opinion as to whether the controls were operating effectively throughout the period or alternatively, the service auditor's opinion that the results constitute an exception.
- 115 The service auditor's description of the nature of tests performed may include enquiry, inspection, observation or re-performance of the described controls. The description of the extent of tests performed identifies whether the items tested represent a sample or all of the items in the population.

Reporting Exceptions

- 116 Exceptions 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 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.
- 117 If exceptions have been identified, the service auditor may include, in the attachment to their report on tests of controls:
- Information about causative factors, to the extent the service auditor has identified such factors.

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

- 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, those charged with governance, any material exceptions noted, so that management, or those charged with governance, may amend the Service Organisation's Controls Report accordingly. If management, or those charged with governance, refuse or fail to do so the service auditor modifies their report.
- 119 Also, the service auditor may become aware of relevant matters of governance interest in the course of the conduct of a controls engagement, in which case the service auditor is required to consider communicating such matters to those charged with governance in accordance with ASAE 3000.

Modified Opinions

- 120 If the service auditor concludes that:
- (a) management's, or those charged with governance's, description of controls and control objectives are not accurately described;
 - (b) the controls are not suitably designed to achieve the specified control objectives;
 - (c) the controls were not implemented; or
 - (d) the controls did not operate effectively throughout the specified period,
- in all material respects, the service auditor modifies their opinion and includes a clear description of the reasons in their report.
- 121 Refusal by management, or those charged with governance, of the service organisation to provide the written representations considered necessary as described in paragraphs 90 to 92 may constitute a limitation on the scope of the engagement and service auditor considers the implications in forming the assurance opinion.

Using the Work of Others

- 122 When using the work of an expert, the service auditor complies with the requirements and refers to the guidance in ASAE 3000.
- 123 The service auditor may be able to use the work of internal audit to alter the nature, timing or reduce the extent of procedures conducted

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

by the service auditor, but cannot eliminate those procedures entirely. If the service auditor intends to use the work of internal audit, the service auditor evaluates and performs procedures on that work to confirm its adequacy for the service auditor's purposes.

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

Special Purpose Audit Engagements

- 125 If the service auditor is engaged to provide a Special Purpose Service Auditor's Report, the service auditor issues a separate auditor's report in respect of each user entity concerning only that user entity's balances and/or transactions.
- 126 An engagement to report on specified assertions or on a Statement is a special purpose audit engagement, consequently the service auditor complies with the Auditing Standards (ASAs) in conducting the engagement and reports under ASA 800.
- 127 If the service auditor has prepared a Controls 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.

Acceptance and Continuance of a Special Purpose Audit Engagement

- 128 The service auditor complies with Auditing Standard ASA 210 *Terms of Audit Engagements* in agreeing the terms of engagement. 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.
 - The service auditor's responsibility to report, in an attachment to the Special Purpose Service Auditor's Report, uncorrected misstatements which have been aggregated during the audit but that were determined by management to be immaterial, both individually and in

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

aggregate, to the Statement taken as a whole, other than amounts which are clearly trivial.

- Reference to the quantitative materiality level provided by the user auditor, if applicable.

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

Independence

- 129 In accordance with Auditing Standard ASA 200 *Objective and General Principles Governing an Audit of a Financial Report*, the service auditor is required to comply with relevant ethical requirements relating to audit engagements in conducting a special purpose audit engagement, which includes the applicable code of conduct of a professional accounting body³.
- 130 The service auditor considers the relevant ethical principles relating to the engagement to be undertaken, which include the fundamental ethical principles of:
- (a) integrity;
 - (b) objectivity;
 - (c) professional competence and due care;
 - (d) confidentiality; and
 - (e) professional behaviour.
- 131 The applicable code of professional conduct states that the concept of independence is fundamental to compliance with the principles of integrity and objectivity⁴. Where the service auditor is undertaking a special purpose audit engagement 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,

³ 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.

⁴ APES 110 *Code of Ethics for Professional Accountants*, Section 290.

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

notwithstanding that the user entity may not be an assurance client of the service auditor.

- 132 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.
- 133 Examples of safeguards that may be considered appropriate by service auditors to manage identified threats to independence include:
- 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

- 134 Special Purpose Service Auditor's Reports, on Specified Assertions or on a Statement, comply with the requirements in ASA 800 and as such include the basic elements of a 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

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

- (e) reference to the use of the report by the user entity and the user auditor.

Examples of a Service Auditor's Report on Specified Assertions is provided in Appendix 3 Section A and a Service Auditor's Report on a Statement is provided in Appendix 3 Section B of this Guidance Statement.

Information Excluded from the Special Purpose Service Auditor's Report

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

Reporting of Matters of Governance Interest Arising in a Special Purpose Audit Engagement

- 136 In the course of performing procedures for a special purpose audit engagement at a service organisation, the service auditor may become aware of any of the following matters:
- (a) material weaknesses in internal control⁵;
 - (b) audit matters of governance interest⁶;
 - (c) uncorrected misstatements⁷, aggregated by the service auditor during the audit that were determined by management to be immaterial, both individually and in aggregate, to the Statement taken as a whole; or
 - (d) fraud or information that indicates that a fraud may exist.⁸
- 137 The service auditor communicates any of the matters of governance interest referred to in paragraph 136 which have come to the service

⁵ ASA 315 provides requirements and guidance on material weaknesses in control.

⁶ ASA 260 provides requirements and guidance on audit matters of governance interest.

⁷ ASA 260 provides requirements and guidance on uncorrected misstatements.

⁸ ASA 240 provides requirements and guidance on fraud.

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

auditor's attention to those charged with governance of the service organisation as required by ASA 260.

- 138 In addition, the service auditor states in the Special Purpose Service Auditor's Report whether they have identified any uncorrected misstatements in the course of the audit, other than amounts which are clearly trivial, and, if so, details the uncorrected misstatements in an attachment to their report. An outline for an attachment on uncorrected misstatements is shown at Appendix 3 Section C.
- 139 If the service auditor considers that any of the matters reported to those charged with governance of the service organisation may affect one or more user entity, the service auditor determines from the appropriate level of management whether this information has been communicated to the affected user entity or entities. If the matter is not communicated satisfactorily, the service auditor may consider whether it affects the service auditor's ability to conduct the engagement or necessitates a modification to the service auditor's report.

Materiality to be Applied by the Service Auditor

Controls Engagements

- 140 In applying the requirements of ASAE 3000 when conducting an assurance engagement to report on controls, the service auditor determines materiality in the context of whether the controls will reduce to an acceptably low level the risks that threaten achievement of the control objectives.
- 141 Material weaknesses in internal control relating to audits of financial reports are required to be reported to those charged with governance, or the appropriate level of management, by the user auditor as noted in paragraph 59. The service auditor is not in a position to identify material weaknesses with respect to each user entity because the service auditor may not be aware of the conditions existing at user entities. The service auditor is required only to consider conditions that come to the service auditor's attention that preclude the service auditor from obtaining reasonable assurance that specified controls objectives would be achieved if the controls were operated as described. The service auditor reports exceptions in the design or operation of controls that cause the non-achievement of specified control objectives. It is then the user auditor's responsibility to consider the effect of those exceptions on the user auditor's risk assessment and whether the exceptions noted represent material weaknesses with respect to the user entity.

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

Special Purpose Audit Engagements

- 142 When conducting an audit of specified assertions or a Statement, the service auditor considers materiality under ASA 320 in determining the nature, timing and extent of audit procedures and evaluating the effect of misstatements. ASA 320 states that the auditor's preliminary assessment of materiality is based largely on quantitative factors. Materiality is also influenced by qualitative factors, although these are more relevant to the assessment of misstatements identified by the audit procedures conducted. The relevant benchmark, for investment management services, on which the service auditor bases the quantitative evaluation of materiality, under ASA 320, in most cases is either:
- (a) the assets of the user entity for which specific assertions are being audited;
 - (b) total assets of the user entity reported in the Statement; or
 - (c) net assets, where assets and liabilities are reported, of the user entity reported in the Statement.
- 143 The service auditor applies a percentage to the benchmark as a starting point in determining materiality under ASA 320. In the absence of a materiality specified by the user auditor, the service auditor may apply a percentage of 0.5% to any of the benchmarks listed in paragraph 142 as a reasonable basis for determining quantitative materiality for auditing specified assertions or a Statement, where investment management services are provided. Where an alternative benchmark is used, this percentage may not be appropriate for determining materiality.
- 144 If the user auditor requests that an alternative benchmark or percentage be used as a basis for determination of quantitative materiality to be applied by the service auditor, then this is communicated by the user entity to the service organisation and agreed between the service organisation and the service auditor.

Conformity with International Pronouncements

- 145 There is no equivalent International Standard on Auditing or International Auditing Practice Statement to this Guidance Statement.

APPENDIX 1

ENGAGEMENT LETTERS

The following example engagement letters are for use as a guide only, in conjunction with the considerations described in GS 007, and will need to be varied according to individual requirements and circumstances.

Section A: Example Engagement Letter for an Assurance Engagement to Report on a Service Organisation's Controls

To [management/those charged with governance] of [service organisation]:

The objective and scope of the assurance engagement

You have requested that we report on the controls over [specify investment management services: custody; asset management, property management, superannuation member administration, investment administration or registry] services [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 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. 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 [design and implementation/design, implementation and operating effectiveness] of the controls over [investment management services].

The responsibilities of the auditor

We will conduct our engagement in accordance with Standards on Assurance Engagements 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. The Standards on Assurance Engagements require that we comply with the relevant ethical requirements relating to assurance engagements and plan and perform the engagement to obtain reasonable assurance that the controls over [investment management services] 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].

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

Appendix 1, Section A

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], as we consider necessary to form an opinion whether, in all material respects:

- (a) 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];
- (b) the controls described are suitably designed to achieve the specified control objectives;
- (c) the controls were implemented; and
- (d) [for Type B Controls Reports insert: the controls described were operating effectively throughout the period.]

The responsibilities of [Management/Those Charged with Governance]

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

- (a) provision of [investment management services] to clients of [service organisation];
- (b) identification of the control objectives relevant to the financial reporting of clients to whom [investment management services] are provided by [service organisation];
- (c) the design, implementation and operating effectiveness of controls at [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 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;
- (e) 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

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

Appendix 1, Section A

- (f) 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 specified control objectives and identification of those instances which have been reported to user entities.

In identifying control objectives, [management/those charged with governance] 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 meet user entities' expectations. If [management/those charged with governance] consider any of the control objectives from GS 007 are not applicable to [the service organisation], then they will include an explanation of the omission of that objective in the [service organisation] Report.

Assurance Report

Our assurance report will include the matters described in GS 007 and will include an opinion on the accuracy of the "Description of Control Objectives and Controls relating to [investment management services provided]" 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 [reporting period]⁹.

Distribution of the Assurance Report

We understand that our report may be incorporated in the [service organisation] Report containing information prepared by [management/those charged with governance] of [service organisation] to provide to clients and the clients' auditors with an overall understanding of the control objectives and controls over [investment management services]. 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

⁹ This paragraph is appropriate for recurring engagements.

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

Appendix 1, Section A

[service organisation] or for any purpose other than that for which it was prepared.¹⁰

Modified Report

We will issue an opinion without modification, to provide reasonable assurance on the controls of [investment management services] where our assurance work does not reveal that:

- (a) [management/those charged with governance]'s description of controls and control objectives is not accurately described in all material respects;
- (b) the controls are not suitably designed to provide reasonable assurance that the specified control objectives would have been achieved if the controls operated effectively;
- (c) the controls were not implemented as at the period end; or
- (d) [For Type B Controls Reports: the controls did not operate effectively throughout the specified period].

If our assurance work reveals that there are material exceptions during the period covered by the [service organisation] Report, such exceptions will be disclosed in our report even if they were corrected prior to the end of the reporting period. However, our report will indicate that such exceptions were corrected if that is the case. If any material exceptions disclosed in our report have 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 engagement will be to enable us to express an opinion on controls, we may also provide you with a separate letter containing recommendations for improving controls if weaknesses are observed during the process of the engagement. Although weaknesses raised may not represent material weaknesses in the system of controls, recommendations will address areas where we believe controls could be improved.

¹⁰ Use of the report & liability limitation: insert additional wording, if any, required to reflect any liability arrangements agreed between the service auditor, the service organisation and other users, including confirmation of the purpose for which the service auditor's report has been prepared and the basis on which other parties may use the report.

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

Appendix 1, Section A

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.

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.

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.

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

Appendix 1, Section A

- 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 work¹¹.

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.

Fees

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

[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.

¹¹ Applicable where the service auditor intends to use the work of internal audit.

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

Appendix 1, Section A

Please sign and return the attached copy of this letter to indicate that it is in accordance with your understanding of the arrangements for our engagement to report on the controls over [service organisation]'s [investment management services] services.

Yours faithfully,

[signed]

.....

Name and Title

Date

Acknowledged on behalf of [service organisation] by [signed]

.....

Name and Title

Date

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

Appendix 1, Section B

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

To [those charged with governance] of the [service organisation]

The objective and scope of the audit

You 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 financial report] 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]¹² [nature of investment management services: managed by or in the custody of] [service organisation] as at [date].

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

The responsibilities of the auditor

We will conduct our audit in accordance with the Auditing Standards of the Auditing and Assurance Standards Board (AUASB), in particular ASA 402 *Audit Considerations Relating to Entities Using Service Organisations*, and with reference to GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*. Auditing 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 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

¹² Where the assets are held in the name of a nominee holding company insert "held in the name of [nominee holding company]".

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

Appendix 1, Section B

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.

In making our risk assessments, we consider controls relevant to the entity's preparation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's controls¹³. However, we expect to provide you with a separate letter concerning any material weaknesses in the design or implementation of controls over financial reporting on behalf of [user entity/ies], that come to our attention during the audit of the [specify assertions audited] of the assets [and liabilities or transactions] in the Statement.

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

The responsibilities of Those Charged with Governance

We take this opportunity to remind you that the responsibility for the preparation and fair presentation of the Statement in accordance with [specify framework]¹⁴ 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:

¹³ 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."

¹⁴ Insert "applicable Australian Accounting Standards" where multiple Australian Accounting Standards were applied; insert reference to a specific Australian Accounting Standard where appropriate (for example: "the measurement standards of AAS 25 Financial Reporting by Superannuation Plans."); or "the accounting policies described in Note X to the Statement".

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

Appendix 1, Section B

- Establishing and maintaining controls relevant to the preparation of a statement that is free from misstatement, whether due to fraud or error.
- Selecting and applying appropriate accounting policies.
- Making accounting estimates that are reasonable in the circumstances.

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

Distribution of the Auditor's Report

We understand that our report may be incorporated in a report 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 [service organisation]'s reporting obligations under the [title of contract or service level agreement]. Our report will be prepared for this purpose only and we disclaim any assumption of responsibility for any reliance on our report, or on the Statement to which it relates, to any person other than [those charged with governance] of [service organisation], [the Trustee/those charged with governance] of [client] and their Auditor, or for any other purpose other than that for which it was prepared.¹⁵

Independence

We confirm that, to the best of our knowledge and belief, the engagement team are independent of [user entity/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, should we become aware that we are not in compliance with the independence requirements of [specify relevant ethical requirements] we shall notify you on a timely basis.

¹⁵ Use of the report & liability limitation: insert additional wording, if any, required to reflect any liability arrangements agreed between the service auditor, the service organisation and other users, including confirmation of the purpose for which the service auditor's report has been prepared and the basis on which other parties may use the report.

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

Appendix 1, Section B

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.

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

Yours faithfully,

(signed)

.....

Name and Title

Date

Acknowledged on behalf of [service organisation] by (signed)

.....

Name and Title

Date

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

Appendix 1, Section C

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

To [those charged with governance] of the [service organisation]

The objective and scope of the audit

You have requested that we audit the [title of special purpose financial report] of [user entity/ies]¹⁶ (“the Statement”), which comprises the [statement of assets and liabilities] as at [date], and the [statement of transactions] for the year then ended, concerning the assets [and liabilities or transactions] of [user entity/ies]¹⁷ [insert nature of investment management services: managed by or in the custody of] [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 Auditing Standards of the Auditing and Assurance Standards Board (AUASB), in particular ASA 402 *Audit Considerations Relating to Entities Using Service Organisations*, and with reference to GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*. Auditing 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 quantitative materiality level, which we will apply in determining the nature, timing and extent of audit procedures and in making our quantitative evaluation of the effect of misstatements identified, has been provided by the auditor of [user entity] and is [x] percent of [total assets/net assets].] An audit involves performing audit procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. An audit also includes evaluating the appropriateness of the financial reporting framework, accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the

¹⁶ If certain assertions are specifically excluded from the audit then insert: “except for [specify assertions excluded, e.g. presentation & disclosure] of the Statement”.

¹⁷ Where the assets are held in the name of a nominee holding company insert “held in the name of [nominee holding company]”.

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

Appendix 1, Section C

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.

In making our risk assessments, we consider controls relevant to the entity's preparation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's controls¹⁸. However, we expect to provide you with a separate letter concerning any material weaknesses in the design or implementation of controls over financial reporting on behalf of [user entity], that come to our attention 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.

The responsibilities of Those Charged with Governance

We take this opportunity to remind you that the responsibility for the preparation and fair presentation of the Statement in accordance with [specify framework]¹⁹ is that of [those charged with governance]. Our report will explain that [those charged with governance] are responsible for the preparation and the fair presentation of the Statement in accordance with the applicable financial reporting framework and this responsibility includes:

- Establishing and maintaining controls relevant to the preparation of a Statement that is free from misstatement, whether due to fraud or error.
- Selecting and applying appropriate accounting policies.

¹⁸ 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."

¹⁹ Insert "applicable Australian Accounting Standards" where multiple Australian Accounting Standards were applied; insert reference to a specific Australian Accounting Standard where appropriate (for example: "the measurement standards of AAS 25 Financial Reporting by Superannuation Plans."); or "the accounting policies described in Note X to the Statement".

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

Appendix 1, Section C

- Making accounting estimates that are reasonable in the circumstances.

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

Distribution of the Auditor's Report

We understand that our report may be incorporated in a report 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 [service organisation]'s reporting obligations under the [title of contract or service level agreement]. Our report will be prepared for this purpose only and we disclaim any assumption of responsibility for any reliance on our report, or on the Statement to which it relates, to any person other than [those charged with governance] of [service organisation], [the Trustee/those charged with governance] of [client] and their Auditor, or for any other purpose other than that for which it was prepared.²⁰

Independence

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

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.]

²⁰ Use of the report & liability limitation: insert additional wording, if any, required to reflect any liability arrangements agreed between the service auditor, the service organisation and other users, including confirmation of the purpose for which the service auditor's report has been prepared and the basis on which other parties may use the report.

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

Appendix 1, Section C

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 that it is in accordance with your understanding of the arrangements for our audit of the Statement.

Yours faithfully,

(signed)

.....

Name and Title

Date

Acknowledged on behalf of [service organisation] by (signed)

.....

Name and Title

Date

APPENDIX 2

CONTROLS REPORTS

The following example Controls Reports are for use as a guide only, in conjunction with the considerations described in GS 007, and will need to be varied according to individual requirements and circumstances.

Section A: Example Service Organisation's Controls Report

[Service Organisation]'s Report by [management/those charged with governance] concerning controls over [investment management services]

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

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

This report sets out control objectives for the [investment management services] services of [service organisation] and the specific controls established to meet each of those objectives. 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 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*]²¹.

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:

²¹ Insert if certain control objectives specified in this Guidance Statement are not met by relevant controls.

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

Appendix 2, Section A

- (a) 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];
- (b) the controls described are suitably designed to achieve the specified control objectives²²;
- (c) the controls were implemented; and
- (d) the controls described were operating effectively throughout the [year or other period] to [date].

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

Date

²² 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”.

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

Appendix 2, Section A

ATTACHMENT 1: [Management/Those Charged with Governance]’s Description of Control Objectives and Controls over [Investment Management Services]

The Controls which were in operation at [service organisation] throughout the period [] to [], or during a lesser period where specified, to ensure that the identified Control Objectives over [investment management services] are achieved were:

Control Objective

[Insert control objectives, including those for the relevant investment management services from GS 007 Appendix 2 Section B.]²³

Controls

[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:

- (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.

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.]²⁴

²³ 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]”

²⁴ 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:

“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]”

Section B: Definitions and Control Objectives for each 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 Controls Report may reasonably expect to be addressed in the Service Organisation's Controls Report but are not intended to be exhaustive. It remains the responsibility of management, or those charged with governance, of [service organisation] to ensure that the described control objectives are sufficient to meet the expectations of user entities. User entity/ies are referred to as client/s in these control objectives.

A. Custody

Definition:

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

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

Control Objectives:

Accepting clients

- A.1** Accounts are set up completely and accurately in accordance with client agreements and applicable regulations.
- A.2** Complete and authorised client agreements are established prior to initiating custody activity.

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

Appendix 2, Section B

- A.3** Investment holdings and related history (where applicable) transferred from prior custodians are received and recorded completely, accurately and on a timely basis.

Authorising and processing transactions

- A.4** Investment and related cash and foreign exchange transactions are authorised and recorded completely, accurately and on a timely basis in accordance with client instructions.
- A.5** 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.
- A.6** Corporate events and voting instructions are identified, processed and recorded on a timely basis.
- A.7** Cash receipts and payments are authorised, processed and recorded completely, accurately and on a timely basis.
- A.8** Securities lending programs are authorised and loan initiation, maintenance and termination are recorded on an accurate and timely basis.
- A.9** 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.

Maintaining financial and other records

- A.10** Accounts are administered in accordance with client agreements and applicable regulations.
- A.11** Changes to non-monetary static data (for example, address changes and changes in allocation instructions) are authorised and correctly recorded on a timely basis.
- A.12** Investment income and related tax reclaims are collected and recorded accurately and on a timely basis.
- A.13** Asset positions for securities held by third parties such as sub custodians and depositories are accurately recorded and regularly reconciled.

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

Appendix 2, Section B

Safeguarding assets

- A.14** Physically held assets are safeguarded from loss, misappropriation and unauthorised use.
- A.15** Cash is safeguarded and payments are suitably authorised and controlled.

Monitoring compliance

- A.16** Sub-custodians and other out-sourced activities are approved and managed in accordance with the requirements of the client agreement.
- A.17** Transaction errors are rectified promptly.

Reporting

- A.18** Client reporting in respect of client asset holdings is complete and accurate and provided within required timescales.
- A.19** 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.

Information technology

G.1 – G.14

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

Appendix 2, Section B

B. Asset Management

Definition:

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

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

Control Objectives:

Accepting clients

- B.1** Accounts are set up completely and accurately in accordance with client agreements and applicable regulations.
- B.2** Complete and authorised client agreements are established prior to initiating investment activity.
- B.3** Asset investment guidelines and restrictions are established and agreed prior to investment management activity.

Authorising and processing transactions

- B.4** Asset investment transactions are properly authorised, executed and allocated in a timely and accurate manner.
- B.5** Transactions are undertaken only with approved counterparties.
- B.6** Asset investment and related cash transactions are completely and accurately recorded and settled in a timely manner.
- B.7** Corporate events and proxy voting instructions are identified and generated, respectively, and then processed and recorded accurately and in a timely manner.

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

Appendix 2, Section B

B.8 Client new monies and withdrawals are processed and recorded completely and accurately.

Maintaining financial and other records

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

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

B.11 Investment income is accurately recorded in the proper period.

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

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

B.14 Investment management fees and other account expenses are accurately calculated and recorded.

Safeguarding assets

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

Monitoring compliance

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

B.17 Outsourced activities are approved and managed in accordance with the requirements of the client agreement.

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

Reporting to clients

B.19 Client reporting in respect of portfolio transactions, holdings and performance, brokerage and voting is complete and accurate and provided within required timescales.

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

Appendix 2, Section B

Information technology

G.1 – G.14

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

Appendix 2, Section B

C. Property Management

Definition:

“Property management” is the performance of the following functions:

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

Control Objectives:

Accepting clients

- C.1** Accounts are set up completely and accurately in accordance with client agreements and applicable regulations.
- C.2** Complete and authorised client 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.
- 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.

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

Appendix 2, Section B

- C.8** Tenants' covenants and lease conditions are assessed and authorised on a timely basis.
- C.9** Property and related cash transactions are completely and accurately recorded and settled in a timely manner.
- C.10** Rental income and service charges are accurately calculated and recorded on a timely basis.
- C.11** Client new monies and withdrawals are authorised, processed and recorded completely and accurately.

Maintaining financial and other records

- C.12** Accounts are administered in accordance with client agreements and applicable regulations.
- C.13** Changes to non-monetary client 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 values.
- 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.
- 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.

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

Appendix 2, Section B

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

Monitoring compliance

- C.24** Client portfolios are managed in accordance with investment objectives, monitored for compliance with investment guidelines and restrictions and performance is measured.
- C.25** Outsourced activities are approved and managed in accordance with the requirements of the client agreement.
- C.26** Transaction errors (including guideline breaches) are rectified promptly and clients treated fairly.

Reporting to clients

- C.27** Client reporting in respect of property transactions, holdings and performance is complete and accurate and provided within required timescales.

Information technology

G.1 – G.14

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

Appendix 2, Section B

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.

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.

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

Appendix 2, Section B

Control Objectives:

Accepting clients

- D.1** Accounts for superannuation funds and sub-plans are set up completely and accurately in accordance with client agreements and applicable regulations.
- D.2** Member accounts are set up completely and accurately in accordance with fund rules and individual investment and insurance elections.

Authorising and processing transactions

- D.3** Contributions and transfers in are correctly classified and allocated to members' accounts, processed accurately and on a timely basis.
- D.4** Superannuation benefits payable and transfer values are calculated and recorded accurately and are paid on a timely basis.
- D.5** Instructions from members and trustees regarding investment elections and investment switch requests are accurately processed.
- D.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.
- D.7** Expenses and tax deducted are remitted to the appropriate parties.

Maintaining member records

- D.8** Changes to members standing data (for example, address changes and changes in allocation instructions) are authorised and correctly recorded on a timely basis.
- D.9** Investment earnings are accurately allocated (through crediting rates or unit pricing) to member accounts and in accordance with trustee directions and fund rules.

Safeguarding assets

- D.10** Superannuation fund, sub-plan and member data is appropriately stored to ensure security and protection from unauthorised use.

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

Appendix 2, Section B

Monitoring compliance

- D.11** Contributions are received in accordance with fund rules and relevant legislation.
- D.12** Transaction errors are identified, notified to members or trustees in accordance with client agreements and rectified promptly if required.
- D.13** Benefits payable and transfer values are calculated and paid in accordance with superannuation fund rules, relevant legislation and regulations.
- D.14** Outsourced activities are approved and managed in accordance with the requirements of the client agreement.

Reporting to clients

- D.15** Annual member statements issued to members are accurate and complete and distributed on a timely basis.

Information technology

G.1 – G.14

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

Appendix 2, Section B

E. Investment Administration

Definition:

“Investment Administration” is the performance of the following functions:

- Maintaining records of securities, cash, and other portfolio assets and liabilities based on information received from the Trustee/Responsible Entity, investment manager, registrar, custodian and others (as applicable).
- Valuations of portfolio assets and liabilities, determining net asset values and reporting thereof.
- Periodic reporting of performance and investment compliance to the Trustee/Responsible Entity, investment manager, and others (as applicable).
- Periodic financial reporting.

Unit pricing and crediting rate calculations are also a function performed in investment administration, for which the control objectives include the accurate calculation of daily or other periodic unit prices or crediting rates with detailed controls allied to that objective. This control objective has not been listed below, because it would not ordinarily be necessary to test these detailed controls in obtaining assurance over the operating effectiveness of controls over the investment administration services provided by a service organisation for the purpose of the audit of user entities’ financial reports.

Control Objectives:

Accepting clients

- E.1** Accounts are set up completely and accurately in accordance with client agreements and applicable regulations.
- E.2** Complete and authorised client agreements are established prior to initiating accounting activity.

Authorising and processing transactions

- E.3** Portfolio transactions are recorded completely, accurately and on a timely basis.

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

Appendix 2, Section B

- E.4** Corporate actions are processed and recorded accurately and on a timely basis.
- E.5** Expenses are appropriately authorised and recorded in accordance with the service level agreement and/or client instructions, on a timely basis.

Maintaining financial and other records

- E.6** Accounts are administered in accordance with client agreements.
- E.7** Changes to non-monetary static data (for example, address changes and changes in allocation instructions) are authorised and correctly recorded on a timely basis.
- E.8** Investment income and related tax are accurately calculated and recorded on a timely basis.
- E.9** Investments are valued in accordance with client agreements.
- E.10** Share/unit activity is recorded completely, accurately and positions are regularly reconciled to data provided by registry.
- E.11** Cash and securities positions are completely and accurately recorded and reconciled to third party data.
- 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 clients and rectified promptly in accordance with client agreements.
- E.14** Outsourced activities are approved and managed in accordance with the requirements of the client agreement.

Reporting to clients

- E.15** Periodic reports to clients, including calculation of net asset value if required, are accurate and complete and distributed on a timely basis.

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

Appendix 2, Section B

E.16 Annual reports and accounts are prepared in accordance with applicable laws and regulations.

Taxation

E.17 The general ledger is complete and accurate (based on all instructions or advice received from the client and/or their approved advisors) prior to processing tax information.

E.18 Distribution income is complete and accurate and is reported to clients on a timely basis.

E.19 Capital gains on securities are calculated completely and accurately.

E.20 Tax information (including: withholding tax, foreign income fund amounts, current and prior year tax losses, current and prior year timing differences, Section 115-45 securities, franking credits, foreign tax credits, Division 16E amounts) is complete and accurate and calculated on a timely basis.

E.21 Current and deferred tax balances are calculated completely, accurately, are valid and processed in a timely manner (where appropriate).

E.22 Assets are completely and accurately classified as held on either a capital or a revenue account (where appropriate).

E.23 Tax journals are valid and are processed completely, accurately, and in a timely manner.

Information technology

G.1 – G.14

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

Appendix 2, Section B

F. Registry

Definition:

“Registry” is the performance of the following functions:

- Maintaining records of the name and address of each shareholder or unitholder, the amount of shares or units 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 clients

- F.1** Accounts are set up completely and accurately in accordance with client agreements.
- F.2** Complete and authorised client agreements are established prior to initiating accounting activity.
- F.3** Pooled fund unit holder activity is clearly established and recorded completely, accurately and in a timely manner.

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

Appendix 2, Section B

Authorising and processing transactions

- F.4** Documents received are checked, sorted and distributed for processing in a timely manner.
- F.5** Investor transactions and adjustments are authorised, processed accurately, completely and in a timely manner.
- F.6** Cash receipts are processed accurately and banked promptly.
- F.7** Cheques and confirmation letters issued are accurately generated, matched and authorised prior to despatch.
- F.8** Shares/units issued do not exceed the authorised number of shares in an issue and the number of new shares/units represented corresponds to the number of cancelled shares/units.

Maintaining financial and other records

- F.9** Accounts are administered in accordance with client agreements.
- F.10** Changes to non-monetary client data (for example, address changes and changes in allocation instructions) are authorised and correctly recorded on a timely basis.
- F.11** Registrar records accurately reflect shares, units and cash held by third parties.
- F.12** Share/unit activity is recorded completely, accurately and positions are regularly reconciled.
- F.13** Pooled funds are priced and administered accurately and in a timely manner.

Safeguarding assets

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

Monitoring compliance

- F.15** Transaction errors are identified, notified to clients in accordance with client agreements and rectified if necessary.
- F.16** Outsourced activities are approved and managed in accordance with the requirements of the client agreement.

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

Appendix 2, Section B

Reporting to clients

F.17 Client reporting is complete and accurate and processed within required timescales.

Taxation

F.18 Distribution information is completely and accurately processed in the Registry system.

F.19 Distribution payments are complete, accurate and processed in a timely manner.

F.20 Withholding tax for non-residents, or where no TFN/ABN has been provided, is calculated completely, accurately and on a timely basis.

Information technology

G.1 – G.14

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

Appendix 2, Section B

G. Information Technology

Scope:

Information technology (IT) control objectives are applicable to all investment management services as IT is integral to providing those services. The IT control objectives are addressed for each investment management service reported on, in addition to the specific control objectives that are provided for each investment management service in this Appendix.

Control Objectives:

Restricting access to systems and data

- G.1** Client data is appropriately stored to ensure security and protection from unauthorised use.
- G.2** Physical access to computer networks, equipment, storage media and program documentation is restricted to authorised individuals.
- G.3** Logical access to computer systems, programs, master data, transaction data and parameters, including access by administrators to applications, databases, systems and networks, is restricted to authorised individuals via information security tools and techniques.
- G.4** Segregation of incompatible duties is defined, implemented and enforced by logical security controls in accordance with job roles.

Authorising and processing transactions

- G.5** IT processing is authorised and scheduled appropriately and exceptions are identified and resolved in a timely manner.

Safeguarding assets

- G.6** Appropriate measures, including firewalls and anti-virus software, are implemented to counter the threat from malicious electronic attack.
- G.7** The physical IT equipment is maintained in a controlled environment.

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

Appendix 2, Section B

Maintaining and developing systems hardware and software

- G.8** Development and implementation of new systems, applications and software, and changes to existing systems, applications and software, are authorised, tested, approved, implemented and documented.
- G.9** Data migration or modification is authorised, tested and, once performed, reconciled back to the source data.
- G.10** Batch processing is complete, accurate and timely.

Recovering from processing interruptions

- G.11** Data and systems are backed up regularly, retained offsite and regularly tested for recoverability.
- G.12** IT hardware and software issues are monitored and resolved in a timely manner.
- G.13** Business and information systems recovery plans are documented, approved, tested and maintained.

Monitoring compliance

- G.14** Outsourced activities are approved and managed in accordance with the requirements of the client agreement.

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

Appendix 2, Section C

Section C: Example Service Auditor's Type B Controls Report

Independent Assurance Report

To the [management/those charged with governance] of [service organisation]

Report on the Controls over [Investment Management Services]

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 provided to [service organisation]'s clients ("the controls"), and on the design, implementation and operating effectiveness of those controls in achieving the control objectives, 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].

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 organisation]'s objectives in the provision of [investment management services] by [service organisation].

Management's Responsibility

[Management/those charged with governance] of [service organisation] are responsible for: providing the services covered by the description; identification of controls objectives relevant to the financial reporting of clients to whom [investment management services] are provided; the design, implementation and operation of the controls at [service organisation] to provide reasonable assurance that the 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.

Auditor's Responsibility

Our responsibility is to form an independent opinion, based on the assurance work carried out in relation to the controls over [service organisation]'s [investment management service] services carried out at [the specified business units of] [service organisation] [located at []] as described in the

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

Appendix 2, Section C

[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, issued by the Auditing and Assurance Standards Board. 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 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

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

Appendix 2, Section C

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.²⁵

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 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.

Auditor's Opinion

In our opinion, in all material respects:

- (a) 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];

²⁵ Use of the report & liability limitation: insert additional/alternative wording, if any, required to reflect any liability arrangements agreed between the service auditor, the service organisation and other users, including confirmation of the purpose for which the service auditor's report has been prepared and the basis on which other parties may use the report.

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

Appendix 2, Section C

- (b) the controls described were suitably designed to achieve the specified control objectives²⁶;
- (c) the controls were implemented; and
- (d) the controls were operating effectively throughout the [year or other period] to [date].

[Auditor's signature]

[Date of the auditor's report]

[Auditor's address]

²⁶ 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.

Section D: Service Auditor's Description of the Nature, Timing and Extent of Tests Applied to Controls

The description does not duplicate the service auditor's detailed assurance programme, since that would provide more than the appropriate level of detail. There is no standardised format for presenting a description of tests applied to controls, however the following elements are ordinarily included in the description:

- 1 Cross reference to the control objectives and allied controls²⁷ intended to achieve those objectives described in the Service Organisation's Controls Report.
- 2 Assessment of the accuracy of the description and the suitability of the design, including:
 - (a) identification of any inadequacies, omissions or inaccuracies in the description of control objectives;
 - (b) identification of any inaccuracies in the description of controls; and
 - (c) identification of any inadequacies in the design of the controls to achieve their stated objectives.
- 3 Tests of implementation – tests conducted to determine whether the controls are implemented as described and the results of those tests, which may be described in combination with tests of operating effectiveness.
- 4 Tests of operating effectiveness, including:
 - (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

²⁷ If applicable, complementary user entity controls would also be described.

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

Appendix 2, Section D

- (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 [service organisation] personnel.
- Conducted enquiries seeking relevant information or representation from personnel were performed to obtain, among other things:
 - Knowledge, additional information and affirmation regarding the control of procedures.
 - Corroborating evidence of the controls.

2 Inspection:

- Inspected documents and records indicating performance of the controls. This included, among other things:
 - Inspection of reconciliations and management reports that age and/or quantify reconciling items to assess whether balances and reconciling items appear to be properly monitored, controlled and resolved on a timely basis, as required by the related control.
 - Examination of source documentation and authorisations related to selected transactions processed.
 - Examination of documents or records for evidence of performance, such as the existence of initials or signatures.

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

Appendix 2, Section D

- Inspection of [service organisation]'s systems documentation, such as operations, manuals, flow charts and job descriptions.

- 3 Observation:
 - Observed the application or existence of specific controls as represented.

- 4 Re-performance:
 - Re-performed the control or processing application of the controls to check the accuracy of their operation. This included, among other things:
 - Obtaining evidence of the arithmetical accuracy and correct processing of transactions by performing independent calculations.
 - Re-performing the matching of various system records by independently matching the same records and comparing reconciling items to reconciliations prepared by the service organisation.

APPENDIX 3

SPECIAL PURPOSE SERVICE AUDITOR'S REPORTS

The following example Special Purpose Auditor's Reports are for use as a guide only, in conjunction with the considerations described in GS 007, and will need to be varied according to individual requirements and circumstances.

Section A: Example Service Auditor's Report on Specified Assertions

Independent Auditor's Report

To [those charged with governance] of [service organisation] regarding [user entity]

Report on the Statement²⁸

We have audited the [specify assertions audited: for transactions or events: occurrence, completeness, accuracy, cut-off and classification; for balances: existence, rights and obligations, completeness or valuation and allocation; or for presentation and disclosure: occurrence, rights and obligations, completeness, classification and understandability and accuracy and valuation] of the assets [and liabilities or transactions] of the accompanying [title of special purpose financial report] ("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]²⁹ for which [service 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 []³⁰.

²⁸ The subheading "Report on the Statement" is unnecessary in circumstances when the second subheading "Report on Other Legal and Regulatory Requirements" is not applicable.

²⁹ Where the assets are held in the name of a nominee holding company insert "held in the name of [nominee holding company]".

³⁰ When the auditor is aware that the Statement will be included in a document that contains other information, the auditor may consider, if the form of the presentation allows, identifying the page numbers on which the Statement is presented.

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

Appendix 3, Section A

The Responsibility of [Those Charged with Governance]³¹ for the Statement

[Service organisation] is responsible for [investment management services] on behalf of [user entity]. [Those charged with governance] of [the service organisation] are responsible for the preparation and fair presentation of the Statement in accordance with [specify framework applied]³² 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 also includes establishing and maintaining controls relevant to the preparation and fair presentation of the Statement to provide reasonable assurance that it is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the [specify assertions audited] in respect of the assets [and liabilities or transactions] in the accompanying Statement, based on our audit. We conducted our audit in accordance with Australian Auditing Standards. The Auditing 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 assets [and liabilities or transactions] set out in the Statement are free of material misstatement in respect of the specified audit assertions.

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]"³³]. The procedures selected depend

³¹ 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.

³² 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".

³³ 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

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

Appendix 3, Section A

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 relevant to [service organisation]'s preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of [service organisation]'s controls.³⁴

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 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.³⁵

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 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.]

Financial Reporting by Superannuation Plans.) or "the accounting policies described in Note X to the Statement".

³⁴ 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."

³⁵ Use of the report & liability limitation: insert additional/alternative wording, if any, required to reflect any liability arrangements agreed between the service auditor, the service organisation and other users, including confirmation of the purpose for which the service auditor's report has been prepared and the basis on which other parties may use the report.

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

Appendix 3, Section A

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 [service organisation] provides [investment management service] services, as of [date] in accordance with [specify framework]³⁶.

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]

³⁶ Insert "applicable Australian Accounting Standards" where multiple Australian Accounting Standards were applied; insert reference to a specific Australian Accounting Standard where appropriate (for example: "the measurement standards of AAS 25 Financial Reporting by Superannuation Plans."; or "the accounting policies described in note X to the Statement").

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

Appendix 3, Section B

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

Independent Auditor's Report

To [those charged with governance] of [name of service organisation] regarding [user entity]

Report on the Statement³⁷

We have audited the accompanying [title of statement] ("the Statement"),³⁸ 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] of [user entity]³⁹ for which [service organisation] provides [specify investment management services provided: custody, asset management, property management, superannuation member administration, investment administration or registry] services as at [date] set out on pages [] to []⁴⁰.

The Responsibility of [Those Charged with Governance]⁴¹ for the Statement

[Service organisation] is responsible for [investment management services] on behalf of [user entity]. [Those charged with governance] of [the service organisation] are responsible for the preparation and fair presentation of the Statement in accordance with [specify framework]⁴² 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 also

³⁷ The subheading "Report on the Statement" is unnecessary in circumstances when the second subheading "Report on Other Legal and Regulatory Requirements" is not applicable.

³⁸ If certain assertions are specifically excluded from the audit then insert: "except for [specify assertions excluded, eg. presentation & disclosure] of the statement."

³⁹ Where the assets are held in the name of a nominee holding company insert "held in the name of [nominee holding company]."

⁴⁰ 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.

⁴¹ 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.

⁴² Insert "applicable Australian Accounting Standards" where multiple Australian Accounting Standards were applied; insert reference to specific Australian Accounting Standard where appropriate (for example: "in accordance with the measurement standards of AAS 25 *Financial Reporting by Superannuation Plans.*") or "the accounting policies described in Note X to the Statement".

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

Appendix 3, Section B

includes establishing and maintaining controls relevant to the preparation and fair presentation of the Statement to provide reasonable assurance that it that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the Statement based on our audit. No opinion is expressed as to whether the accounting policies used, as described in Note X, are appropriate to meet the needs of [user entity]. We conducted our audit in accordance with Australian Auditing Standards. These Auditing 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.

An audit 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 controls 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, but not for the purpose of expressing an opinion on the effectiveness of [service organisation]'s controls⁴³.

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

⁴³ 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."

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

Appendix 3, Section B

service level agreement]. We disclaim any assumption of responsibility for any reliance on this independent auditor's report, or on the Statement to which it relates, to any person other than [those charged with governance] of [service organisation], [the Trustee/those charged with governance] of [user entity] and their Auditor, or if either the Statement or the auditor's report is used for any other purpose other than that for which they were prepared.⁴⁴

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 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 [service organisation] provides [investment management service] services, in accordance with [specify framework].⁴⁵

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]

⁴⁴ 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.

⁴⁵ Insert "applicable Australian Accounting Standards" where multiple Australian Accounting Standards were applied; insert reference to a specific Australian Accounting Standard where appropriate (for example: "the measurement standards of AAS 25 Financial Reporting by Superannuation Plans."); or "the accounting policies described in Note X to the Statement".

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

Appendix 3, Section C

Section C: Example Attachment to a Special Purpose Service Auditor's Report

Uncorrected Misstatements

In the course of conducting our audit procedures at [service organisation] for the purpose of reporting on [specific assertions/the Statement] we have identified the following uncorrected misstatements, other than amounts which are clearly trivial, which were determined by [management/those charged with governance] to be immaterial, both individually and in aggregate, to the [specific assets and liabilities or transactions/Statement] taken as a whole. These misstatements are reported solely for the purpose of providing information to clients of [service organisation] and their auditors and they do not affect our audit opinion:

[Insert: List of uncorrected misstatements]