



AUASB DECLARATION OF INTERESTS

As at 1 June 2026

AUASB Meeting 175
Agenda Paper 1.0

AUASB Member	Professional/Organisational Affiliations	Employment/Other Positions Held	Other Relevant Interests
Mr Doug Niven (Chair)	<ul style="list-style-type: none"> • Fellow, Chartered Accountants Australia and New Zealand 	<ul style="list-style-type: none"> • Chair of the Auditing and Assurance Standards Board, AUASB Statutory Authority and Office of the AUASB • Member, Australia’s Financial Reporting Council • Member, New Zealand Auditing and Assurance Standards Board 	<ul style="list-style-type: none"> • Member, IAASB/IESBA Stakeholder Advisory Council • Member, IAASB Jurisdictional Standard Setters Group
Ms Julie Crisp (Deputy Chair)	<ul style="list-style-type: none"> • Registered Company Auditor • Fellow, Chartered Accountants Australia and New Zealand • Fellow, CPA Australia • Fellow, Governance Institute of Australia • Fellow, Institute of Public Administration Australia • Graduate, Australian Institute of Company Directors • Certified Internal Auditor, Certified Government Audit Professional, Certification in Risk Management Assurance – Professional Member, Institute of Internal Auditors • Member, Association of Certified Fraud Examiners 	<ul style="list-style-type: none"> • Non-Executive Director, CPA Australia • Member – Performance Statements Audit Expert Advisory Panel, Australian National Audit Office • Former Northern Territory Auditor-General (concluded 12 September 2024) 	<ul style="list-style-type: none"> • Director and Shareholder, Family Trust Company • Director and Shareholder, Asterism Assurance and Advisory Pty Ltd • Board Director and Chair of the Auditing & Risk Committee of Aboriginal Investment NT, a Commonwealth statutory entity regulated by the ACNC • Non-Executive Director, Larrakia Development Corporation • Director, Darwin Hotel Partnership Pty Ltd • Member, Audit & Risk Committee, Charles Darwin University • Member, Audit & Risk Committee, Department of Local Government, Industry Regulation and Safety (a department of the Government of Western Australia)



AUASB Member	Professional/Organisational Affiliations	Employment/Other Positions Held	Other Relevant Interests
Ms Merilyn Gwan	<ul style="list-style-type: none">Fellow, Chartered Accountants Australia and New Zealand	<ul style="list-style-type: none">Partner, Grant Thornton Australia	<ul style="list-style-type: none">Member of Australian Institute of Company Directors Reporting CommitteeMember of the Australian Accounting and Assurance Public Policy Committee – Audit Quality Working GroupMember of the Australian Accounting and Assurance Public Policy Committee – ESG Working GroupDirector and Shareholder, Family Trust Company(s)Trustee – personal family trusts
Mr Klynton Hankin	<ul style="list-style-type: none">Member, Chartered Accountants Australia and New Zealand	<ul style="list-style-type: none">Partner, PricewaterhouseCoopers	<ul style="list-style-type: none">Member, Finance, Risk and Audit Committee - Cancer Council Australia
Dr Noel Harding	<ul style="list-style-type: none">Member, CPA Australia	<ul style="list-style-type: none">Professor and Head of School of Accounting, Auditing and Taxation, UNSW Sydney	<ul style="list-style-type: none">Editor, International Journal of AuditingDeputy Editor, Accounting and FinanceCo-chair of AFAANZ Auditing and Assurance Standards Committee
Mr Terence L Jeyaretnam	<ul style="list-style-type: none">Degree in Environmental Engineering (UWA)Chartered Professional EngineerFellow and Engineering Executive of the Institute of Engineers, Australia	<ul style="list-style-type: none">Director, Foresight Consulting Group Pty LtdClean Energy Regulator Accredited Category 2 AuditorAssociate Professor of Practice at Monash University's Department of Accounting, Faculty of Business and EconomicsFormerly APAC Leader and Partner, Climate Change and Sustainability Services, Ernst & Young in Melbourne	<ul style="list-style-type: none">Board member, Australian Conservation FoundationChair, Amnesty International AustraliaChair, Global Citizen, AustraliaBoard member, ProVeg LtdCouncillor, Royal Society of Victoria
Ms Joanne Lonergan	<ul style="list-style-type: none">Member, Chartered Accountants Australia and New Zealand	<ul style="list-style-type: none">Partner, Ernst & Young	<ul style="list-style-type: none">Director & Shareholder, Family Trust Company



AUASB Member	Professional/Organisational Affiliations	Employment/Other Positions Held	Other Relevant Interests
Mr Graeme Pinfold	<ul style="list-style-type: none">Fellow, Chartered Accountants Australia and New Zealand	<ul style="list-style-type: none">Chair, New Zealand Auditing and Assurance Standards Board	<ul style="list-style-type: none">Board Member and Treasurer, Okawa Rotoiti Timeshare Owners AssociationChair, Sustaining the Audit Profession Working GroupDirector, The Auckland Theatre Company
Mr Andrew Porter	<ul style="list-style-type: none">Fellow, Institute of Chartered Accountants in England and WalesMember, Australian Institute of Company DirectorsFellow, Chartered Accountants Australia and New Zealand	<ul style="list-style-type: none">Chief Financial Officer, Australian Foundation Investment Company LimitedCFO for Djerriwarrh Investments, Mirrabooka Investments and AMCIL Limited	<ul style="list-style-type: none">Director of Australian Investment Company Services Ltd.Director of a Family Trust CompanyDirector of the Melbourne Anglican Foundation and trustee of related entities
Ms Jennifer Travers	<ul style="list-style-type: none">Member, Chartered Accountants in Australia and New Zealand	<ul style="list-style-type: none">Partner, KPMG	<ul style="list-style-type: none">Chair of the Australian Accounting and Assurance Public Policy Committee – Audit Quality Working GroupMember of the Australian Accounting and Assurance Public Policy Committee – ESG Working GroupChair of the Trans-Tasman Audit and Advisory Committee (CA ANZ)Director and Shareholder, Family Trust Company(s)Trustee, personal family trusts
Mr Jason Thorne	<ul style="list-style-type: none">Fellow, Institute of Chartered Accountants in England and WalesMember, Chartered Accountants in Australia and New ZealandRegistered Company Auditor	<ul style="list-style-type: none">Partner, Deloitte Touche Tohmatsu	<ul style="list-style-type: none">Director and Shareholder, family trust company
Mr Chi Mun Woo	<ul style="list-style-type: none">Member, Chartered Accountants Australia and New ZealandMember, Institute of Chartered Accountants in England and Wales	<ul style="list-style-type: none">Partner, Climate and Sustainability practice, Deloitte	-



AUASB Agenda Paper

Title:	Observations from December 2025 listed entity Sustainability Assurance Reports	Date:	1 June 2026
Office of the AUASB:	Sheryl Huang, Tim Austin and Anne Waters	Agenda Item:	2.0

Objective of this agenda paper

1. The objective of this agenda item is to inform AUASB members on the key observations from the Office of the AUASB's review of listed entity sustainability assurance reports for the year ended December 2025.
2. This agenda item provides an opportunity for Members to:
 - (a) discuss the Office of the AUASB's observations;
 - (b) raise any observations of their own with the AUASB and the Office of the AUASB; and
 - (c) consider whether guidance may be required to address any matters discussed.
3. This agenda paper does not generally comment on the appropriateness of practices observed.

Questions for AUASB Members

No.	Question
1	Do AUASB members have any other observations from sustainability assurance reports for the year ended December 2025 to discuss with AUASB Members and the Office of the AUASB?
2	Do AUASB members have views on whether any potential guidance may be required?

Overview

4. The Office of the AUASB reviewed sustainability assurance reports issued by thirty-three¹ listed entities for the December 2025 reporting period. The review focused on the content of the sustainability assurance reports and the scope of the assurance engagements, including assurance of voluntary sustainability information.
5. The Office of the AUASB:
 - (a) is obtaining details of unlisted entity sustainability reports lodged with ASIC for the year ended 31 December 2025 and intends to review select assurance reports; and
 - (b) intends to review sustainability assurance reports for the year ending June 2026;

¹ Appendix 1 presents the list of the entities reviewed.

and will present any relevant observations to AUASB members for consideration and discussion.

Matters for Discussion

General observations

6. From our review of thirty-three Group 1 listed entity's sustainability assurance reports we noted:
- (a) Most entities obtained limited assurance.
 - (b) Eight entities (24%) obtained voluntary assurance on selected sustainability information.
 - (c) Three entities (9%) had assurance ahead of the requirements in *ASSA 5010 Timeline for Audits and Reviews of Information in Sustainability Reports under the Corporations Act 2001* for Year 1. Of these entities:
 - (i) One entity obtained reasonable assurance on Scope 1 and Scope 2 greenhouse gas emissions²;
 - (ii) One entity obtained limited assurance on selected sustainability information beyond the four disclosures required under ASSA 5010³;
 - (iii) One entity obtained limited assurance on the full mandatory sustainability report as required under AASB S2⁴.
 - (d) All entities used the same Firm for both the audit of the financial report and the review/audit of the sustainability report with twenty-four entities (73%) having the same signing partner for both reports.

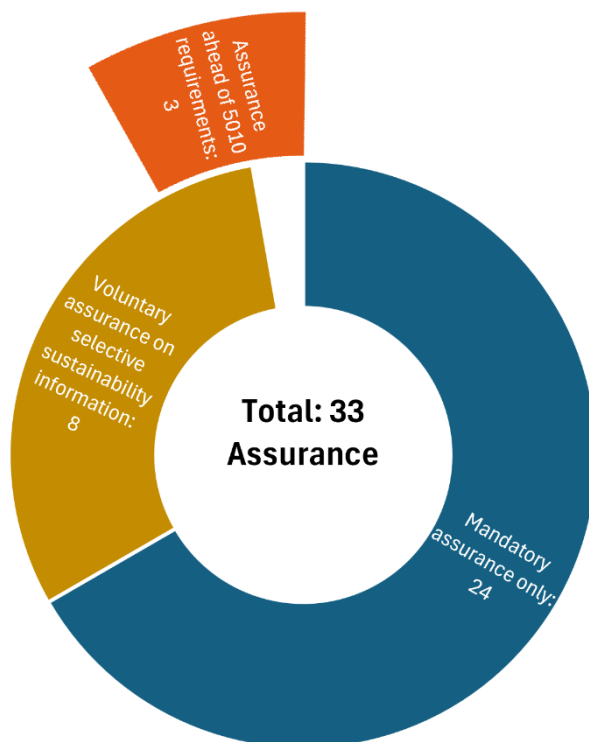


Figure 1. Overview of the scope of sustainability assurance engagement

² Viva Energy Group Limited.

³ TPG Telecom Limited.

⁴ Santos Limited.

7. Most entities published their mandatory report as part of their annual report with several entities publishing a standalone mandatory sustainability report. The diagram below provides a snapshot of the publication locations of sustainability assurance reports for the December year-end reporting period.

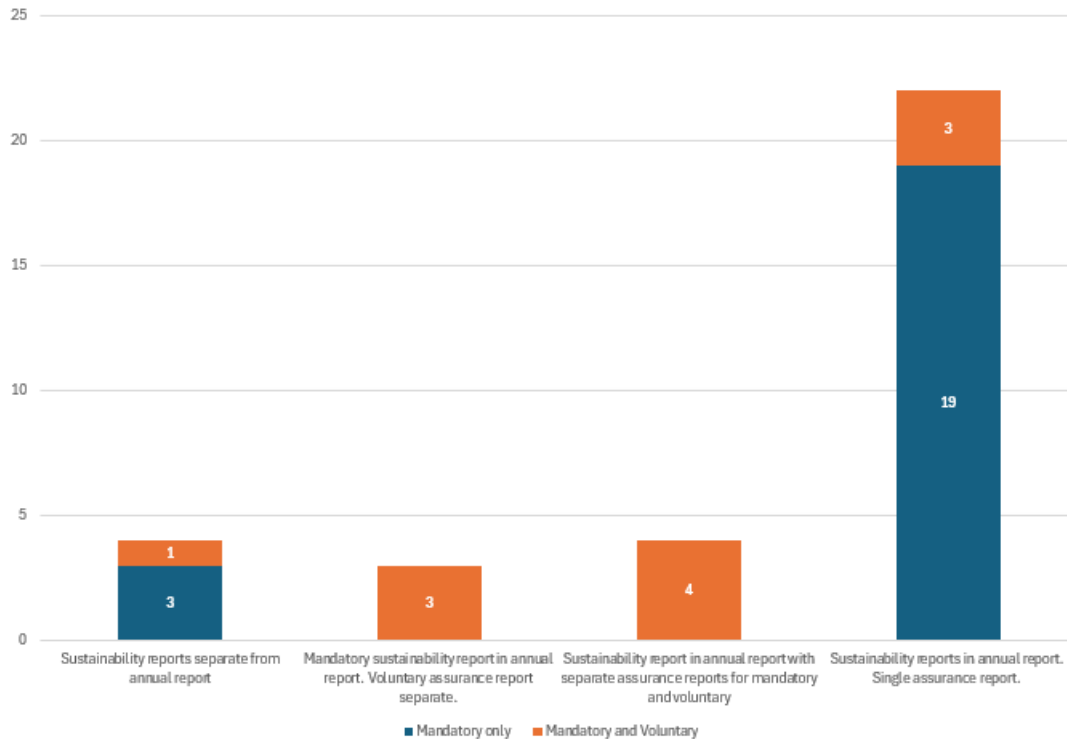


Figure 2. Summary of the placement of the sustainability assurance report

Other Information section

8. The Office of the AUASB observed that the ‘other information’ was generally limited to the document that contained the sustainability report.
9. [ASIC’s early observations on sustainability reporting ahead of 30 June 2026](#), issued on 18 May 2026 (ASIC’s Observations), identified instances of reporting entities cross-referencing information in their sustainability report but not meeting cross-referencing requirements in AASB S2 and ASIC guidance in RG 280.

Inherent Limitations section

10. ASSA 5000.190(g) allows the auditor to include in their auditor’s report, where applicable, any significant inherent limitations associated with the measurement or evaluation of the sustainability matters under the heading “Inherent Limitations in Preparing the Sustainability Information”.
11. The ISSA 5000 *Implementation Guide* emphasised that the heading, “Inherent Limitations in Preparing the Sustainability Information” is intended to draw attention to the fact that the inherent limitations described are those encountered by management in preparing the sustainability information.
12. The Office of the AUASB observed that assurance reports used the heading “Inherent Limitations” only.
13. The most common inherent limitations topics included greenhouse gas emissions quantification (similar to the AUASB Illustrative Corporations Act Sustainability Assurance Reports) and forward-looking statements.

14. Some of the inherent limitations were linked to a disclaimer or limitation included by the entity within the sustainability report. ASIC's Observations included that 'Disclaimers that conflict with the statutory framework and objectives of Chapter 2M sustainability reporting may confuse or mislead and are not permitted to be used.'
15. Some assurance reports included an inherent limitation related to the nature of an assurance engagement, not specifically the subject matter information. This is an established practice under the ASAE 3000 suite of standards, some of which contain illustrative reports with inherent limitations of assurance engagements wording. Similar wording appears in the auditor's responsibilities under *ASA 700 Forming an Opinion and Reporting on a Financial Report*.

Next steps and way forward

16. The Office of the AUASB may prepare guidance to address any areas that AUASB Members consider require clarification.

Appendix 1 – List of entities observed

ASX Code	Company Name
29M	29Metals Limited
AMP	AMP Ltd
ALD	Ampol Limited
BFG	Bell Financial Group Limited
CAA	Capral Limited
DBI	Dalrymple Bay Infrastructure Limited
DDR	Dicker Data Limited
APE	Eagers Automotive Limited
GEM	G8 Education Limited
GRR	Grange Resources Limited
ILU	Iluka Resources Limited
IRE	Iress Limited
KAR	Karoon Energy Ltd
LFS	Latitude Group Holdings Limited
MAF	MA Financial Group Limited
NIC	Nickel Industries Limited
OML	oOh!media Limited
PPM	Pepper Money Limited
QBE	QBE Insurance Group Limited
RSG	Resolute Mining Limited
RIO	Rio Tinto Limited
STO	Santos Limited
SCG	Scentre Group
SMR	Stanmore Resources Limited
SYR	Syrah Resources Limited
TLX	Telix Pharmaceuticals Limited
TPG	TPG Telecom Limited
UOS	United Overseas Australia Limited
VNT	Ventia Services Group Limited
VEA	Viva Energy Group Limited
WAF	West African Resources Limited
WDS	Woodside Energy Group Ltd
YAL	Yancoal Australia Ltd



AUASB Agenda Paper

Title:	Update on revised GS 007 <i>Audit Implications of the Use of Service Organisations for Investment Management Services</i> and possible guidance on RSE-related matters	Date: 1 June 2026
Office of the AUASB:	Arti Naidu	Agenda Item: 3.0

Objectives of Agenda Paper

- This Agenda Paper:
 - seeks any AUASB member concerns with undertaking industry consultation on the draft revised GS 007;
 - seeks feedback on proposed valuation governance and methodology control objectives in B.19 to B.26 on pages 59 and 60 of the draft revised GS 007;
 - seeks AUASB approval to develop guidance on assurance work on the valuation of investments in externally managed MISs and other RSE-related matters separately from GS 007;
 - seeks AUASB approval in using the existing GS 007/EG Au 8 Project Advisory Group (PAG) to progress the RSE-related matters (subject to PAG members' agreement); and
 - seeks AUASB agreement not to split GS 007 into two parts (user vs service organisation auditors).
- AUASB members are not asked to review of the draft GS 007 at this time. In considering [Board paper 4.1 for the 15 April 2026 AUASB meeting](#), members asked to see the draft to assist them in considering the matters detailed above.

Questions for AUASB members

No.	Questions
GS 007/EG Au 8 matters	
1	Do AUASB members have any comments on the valuation governance and methodology control objectives in the draft revised GS 007 (see B.19 to B.26 on pages 59 and 60 of the draft revised GS 007 in Agenda Paper 3.3)?
2	Do AUASB members have any objections to providing the draft revised GS 007 to industry for consultation (see paragraphs 10 and 11 of this paper)?
3	Do AUASB members agree that GS 007 should not be split into two parts (one for user auditors and one for service organisation auditors) (see paragraphs 11 and 12 of this paper)?
RSE-related matters	
4	Do AUASB members agree that the AUASB should develop guidance on audit work on the valuation of investments in externally managed MISs and other RSE-related audit matters (see paragraphs 16 and 17(a) of this paper)?
5	Do AUASB members agree that the guidance on RSE-related matters should appear in a separate guidance document from the revised GS 007 (see paragraphs 16 and 17(b) of this Paper)?
6	Do AUASB members support using the existing GS 007/EG Au 8 Project Advisory Group (PAG) to progress the RSE-related matters (subject to PAG members' agreement) (see subparagraph 17(c) of this paper)?

Background

3. In May 2025, the AUASB and the NZAuASB approved a project plan to revise GS 007/EG Au 8 (the NZ equivalent of GS 007) to improve guidance in areas that auditors find difficult in practice. The project was limited to matters within the scope of extant GS 007, that is matters affecting financial reporting and the outsourcing of the management of direct investments to an external manager. Extant GS 007 refers to ASA 402 and ASAE 3402 and covers controls at the service organisations and includes substantive procedures. Direct investments in unitised products are specifically scoped out by paragraph 7 of extant GS 007 and the draft revised GS 007.
4. A Project Advisory Group (PAG), comprising auditors from large firms in Australia and New Zealand, was established to support the revision of GS 007/EG Au 8.
5. Regulators in Australia and New Zealand were given an opportunity to comment on a draft revised GS 007/EG Au8. Their feedback has been incorporated (where appropriate), and we provided responses to them on how their feedback has been addressed. One regulator also met with representatives of the Office of the AUASB to discuss their feedback further.
6. Since the AUASB was updated on progress at its 15 April 2026 meeting, the PAG met on 20 May 2026 to discuss final amendments to information technology control objectives in Appendix 3 to the draft revised GS 007. All matters listed in the appendix to the GS 007 Project Plan (see Agenda Paper 5.1) have been addressed, subject to the matters noted under 'Timing' below. For information, Agenda Paper 3.4 summarises the changes from extant GS 007.

Timing

7. While the 15 April 2026 AUASB Board paper indicated that the revised GS 007/EG Au 8 was expected to be completed for approval by the AUASB and NZAuASB by the end of June 2026, we are now aiming for approval in August 2026. At the 15 April 2026 AUASB meeting it was decided to defer some decisions until the AUASB members could consider those matters (see Questions 1. 2 and 4 above) with reference to a draft of GS 007/GS Au 8 at the 1 June 2026 Board meeting.
8. Further time would be required to finalise the revised GS 007/EG Au 8 if the project scope is expanded to cover the RSE-related matters.

Industry consulting

9. As outlined in the GS 007 project plan (see Agenda Paper 3.1), it is intended to consult with industry (e.g. custodians) in Australia and New Zealand, particularly on the control objectives in the draft revised GS 007. Under processes revised at the 15 April 2026 AUASB meeting, AUASB members are given an opportunity to comment on the draft revised GS 0007 before it is provided to any external stakeholders for feedback.
10. It is recommended the draft revised GS 007 be provided to industry for feedback.

Splitting GS 007/EG Au 8

11. A question has been raised in NZ on whether GS 007/EG Au 8 should be split into two parts (user auditors and service organisation auditors). Arguments for and against splitting the documents into two parts are summarised in the table below.

No.	For	Against
1	The combined document may be seen as too complex and lengthy.	The two parts of the document are cleared delineated but are intended to work together. The user auditor needs to understand the work of the service auditor. The service auditor needs to understand the expectations of the user auditor. Separating the document into two parts would result in significant duplication and/or cross-referencing. Together the two documents would be more complex and lengthier than a single document.
2	Delaying the publication should not be a reason against possible enhanced communication.	Splitting the document would require additional time and resources. The finalisation of GS 007/EG Au 8 would be further delayed.

12. It is recommended that the GS 007/Eg Au 8 not be split into two documents.

RSE-related matters

13. The RSE-related matters arose from ASIC Report [*REP 816 Accounting for your super: ASIC's review into the financial reporting and audit of super funds*](#) which outlined ASIC's findings and recommendations from its RSE audit inspections (see the Appendix to this paper) on:
 - (a) audit work on the valuation of investments in unlisted MISs and similar collective investment vehicles (domestic and foreign); and
 - (b) RSE audit materiality.
14. The AAA-PPC established an RSE Taskforce to develop recommendations to the AAA-PPC on potential responses to address the matters in the ASIC report. The Taskforce has met on four occasions and will have a further two meetings before finalising its recommendations. The first of two Taskforce meetings with RSE industry representatives on their processes, etc has taken place. While the Taskforce is aiming to conclude before 30 June 2026, that may prove ambitious. Representatives of the Office of the AUASB observe the Taskforce meetings and participate in discussions. Any decisions on possible AUASB guidance remain a matter for the AUASB Board.
15. Discussions on possible joint AUASB/ NZAuASB guidance on the RSE-related matters are ongoing. The status of these discussions to date is as follows:
 - (a) *GS 007 PAG* - PAG members suggested expanding the scope of the revised GS 007/EG Au 8 to address audit work on the valuation of investments in unlisted MISs. Whether the additional guidance is included in GS 007/EG Au 8 or separate guidance documents, GS 007 PAG members might be used, subject to their agreement.
 - (b) *AAA-PPC RSE Taskforce* – Taskforce members would support AUASB guidance but believe it should appear outside GS 007. It has been suggested that the AUASB cover one aspect of audit materiality (relating to sponsorship and advertising) and the matters relating to the audit work on unlisted investments in MISs. The RSE Taskforce would continue. Any AUASB guidance would be developed after the Taskforce work is completed and with regard to that work.
 - (c) *AUASB members* - In a private session at the AUASB's 25 February 2026 meeting, some members expressed support for the AUASB developing guidance on audit work on the valuation of investments in unlisted MISs.
 - (d) *ASIC* - ASIC would support the AUASB developing guidance.
 - (e) *NZAuASB* - At its meeting on 1 April 2026, the NZAuASB supported the development of guidance separate from the revised GS 007.
 - (f) *NZ FMA* – At a meeting of the NZ FMA, NZ XRB and the Office of the AUASB representatives on 15 May 2026, the NZ FMA did not object to guidance on the RSE-related matters from the standard setters and expressed interest in guidance in areas such as documentation.
16. The table below outlines matters for and against including guidance on the RSE-related matters in GS 007. This table also appeared in the 15 April 2026 AUASB Board papers.

No.	For	Against
1	<p><i>Efficiency and avoiding duplication</i></p> <p>Including additional guidance in GS 007 may be more efficient to the extent that it involves the valuation of investments in externally managed MISs and some of the guidance may overlap with the guidance in GS 007 (e.g. guidance on gap periods between an MIS's latest audited financial report and the RSE's year end). Otherwise, separate guidance may need to repeat or cross-refer to some of the guidance in GS 007.</p>	<p><i>Significant delay in the finalisation of the revised GS 007</i></p> <p>Expanding scope at this late stage would delay the finalisation of the revised GS 007 by given:</p> <ul style="list-style-type: none"> • The AAA-PPC RSE Taskforce work is unlikely to conclude before 30 June 2026. • Additional PAG time and consultation would be required to develop the guidance. • There may be differing views between stakeholders on aspects of the guidance <p>This would also delay the operative date of GS 007.</p>

No.	For	Against
2	<p>Scope of GS 007</p> <p>Discussions with stakeholders on the scope of the additional guidance are still in process. The scope could be narrower than all audit-related matters in ASIC Report 816.</p>	<p>Scope of GS 007</p> <p>Covering all of the audit matters in ASIC Report 816 would significantly increase the scope of GS 007 to cover:</p> <ul style="list-style-type: none"> • Unitised products currently scoped out by paragraph 7 of extant GS 007; • Guidance on testing the interests of an RSE's interest in an MIS, which may extend to NAV/unit, units on issue and unit prices of the MIS. This may also necessitate work on unit prices for applications and redemptions during the year, and unresolved MIS member complaints received. Similar guidance may also be relevant for audit work on the member interests of the RSE itself; • Guidance on setting materiality for RSEs and possibly other financial services or investment entities (e.g. MISs, life insurance); and • We understand auditors are unlikely to be able to rely on controls of MIS managers or RSEs at present, but this a key part of the guidance in GS 007 and the reports obtained from service organisation auditors.
3	<p>External investment management</p> <p>GS 007 addresses audit implications arising from the use of service organisations for investment management. The findings in ASIC Report 816 include audit work on the valuation of indirectly held interests in pooled arrangements that are also externally managed.</p>	<p>Types of unlisted investments</p> <p>Valuation approaches and audit work may differ across asset classes (property, infrastructure, venture capital, etc). There may also be a need to cover the tax implications of unrealised gains on underlying MIS assets. Covering this in GS 007 risks oversimplification or technical inaccuracies.</p>
4	<p>Usability for auditors</p> <p>Auditors currently look to GS 007 as the primary source of guidance when auditing outsourced investment activities. Providing guidance primarily related to the valuation of investments in unlisted MISs within the same document:</p> <ul style="list-style-type: none"> • enhances accessibility and consistency for practitioners; • reduces the risk that important guidance is overlooked across multiple documents; and • supports consistent application in practice. 	<p>Complexity of GS 007</p> <p>The draft revised GS 007 is already long and detailed. While the draft will be reviewed for opportunities for simplification, much of this detail derives from PAG discussions and drawing on UK guidance.</p> <p>Introducing the RSE matters is likely to significantly increase the size and complexity of the revised GS 007, and risks increased confusion and reduced clarity.</p> <p>If the scope is changed, there may also be confusion as to the scope of GS 007 reports among both user and service auditors.</p>
5	-	<p>Consistency between Australia and NZ</p> <p>The NZAuASB currently supports the development of guidance separate from EG Au 8.</p>

17. It is recommended that:

- (a) Guidance be developed on RSE-related matters, having regard to paragraph 16 above; and
- (b) Any guidance on the RSE matters appear in a separate guidance document from GS 007, having regard to the matters in the table above; and

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- (c) That the GS 007 PAG be used in developing the guidance given their backgrounds and some connections with GS 007.
18. For information, APRA raised concerns with governance on the valuation of unlisted investments by some RSEs in Section 3 of its report titled *Governance of Unlisted Asset Valuation and Liquidity Risk Management in Superannuation (December 2024)*.

Next steps

19. Subject to feedback from AUASB members and approval:
- (a) the draft revised GS 007/EG Au 8 will be provided to industry for consultation;
 - (b) A revised GS 007 will be brought to the AUASB Board for approval at the August 2026 Board meeting subject to industry consultation and final feedback considered from PAG members. This will be coordinated with the NZ AuASB; and
 - (c) A project plan for developing guidance on the audit -related matters in ASIC Report 816 will also be presented to the 24 June 2026 Board meeting. This will also be coordinated with the NZAuASB.

Materials presented

Agenda Paper	Description
3.1	GS 007 Project Plan
3.2	Revised draft GS 007
3.3	Summary of changes to GS 007

APPENDIX: MATTERS IN ASIC REPORT 816

The audit-related matters raised in ASIC Report 816 are outlined in the table below.

No.	Area	ASIC Report 816 – ‘What auditors should do’
1	Assurance about investment valuations	<p>Auditors should consider the following steps when auditing the valuation of unlisted investments that are indirectly held and externally managed.</p> <ul style="list-style-type: none"> • When performing their risk assessment procedures, auditors should understand the nature of the underlying assets, the methods, assumptions and sources of data used in the valuation of those assets: see ASA 315 <i>Identifying and Assessing the Risks of Material Misstatement</i> (ASA 315). • When relying on the operating effectiveness of an external fund manager’s valuation controls, auditors should review the controls report provided by the other auditor and: <ul style="list-style-type: none"> ○ challenge and assess the sufficiency of controls identified and tested ○ where necessary, make further inquiries of the other auditor (directly or through the RSE) to understand the valuation controls, and ○ where gaps are identified, obtain further assurance over controls from the other auditor (directly or through the RSE) or revise their own audit approach. <p>See ASA 500 <i>Audit Evidence</i> (ASA 500) and ASA 330 <i>The Auditor’s Responses to Assessed Risks</i> (ASA 330).</p> <ul style="list-style-type: none"> • When relying on the operating effectiveness of an RSE’s controls over an external fund manager, auditors should identify and test the RSE’s controls used to monitor and assess the appropriateness and reasonableness of the fund manager’s valuation methods, assumptions and data (applied both during the year and at year end): see ASA 500 and ASA 330. • When performing substantive procedures, auditors should test the reliability and reasonableness of pricing information provided by external fund managers. This may include testing the fund manager’s methods, assumptions and sources of data used in the valuation (especially when there are no audited financial reports available for the unlisted investments): see ASA 500, ASA 330 and ASA 505 <i>External Confirmations</i> (ASA 505). <p>Note: Even when information to be used as audit evidence is obtained from sources external to RSEs, circumstances may exist that could affect its reliability (e.g. when the source may lack objectivity).</p> <ul style="list-style-type: none"> • When performing other substantive procedures when audited financial reports for unlisted investments are not available or do not cover the full financial year, auditors should (directly or through RSEs): <ul style="list-style-type: none"> ○ obtain access to information about the underlying assets from the external fund manager that allows the auditor to test the year-end valuation: see ASA 540 <i>Auditing Accounting Estimates and Related Disclosures</i> (ASA 540), or ○ where relevant, obtain reliance from the work of the other auditor through agreed substantive audit procedures for the year-end valuation. <p>Note: There is no statutory requirement for unregistered (wholesale) managed investment schemes to issue audited financial reports. This elevates the risks associated with the reliability of the valuation of investments in these schemes.</p> <ul style="list-style-type: none"> • When performing other substantive procedures in conducting a fair value movement analysis between the RSE’s balance date and the date of the last audited financial report, auditors should consider: <ul style="list-style-type: none"> ○ price movements against recent market movements of the underlying assets, and ○ other current information. <p>See ASA 500.</p> <p>Note: Work on movement analysis for periods greater than three months is less likely to give sufficient assurance over year end investment values.</p> <ul style="list-style-type: none"> • When assessing the impact of information limitations on the audit opinion (i.e. when there is no other audited information and there is limited available information regarding the underlying assets, valuation methods, assumptions and inputs), auditors should: <ul style="list-style-type: none"> ○ understand the nature of the limitation of scope and whether it results in an increased risk requiring further audit procedures ○ assess whether the limitation would result in a modified audit opinion, and ○ consider the need to report matters to those charged with governance and APRA.

AUASB Agenda Paper

No.	Area	ASIC Report 816 – ‘What auditors should do’
		<p>See ASA 705 <i>Modifications to the Opinion in the Independent Auditor's Report</i> (ASA 705), ASA 260 <i>Communication to Those Charged with Governance</i> (ASA 260) and ASA 265 <i>Communicating Deficiencies in Internal Control to Those Charged with Governance and Management</i> (ASA 265).</p> <p>When auditing the valuation of directly held unlisted investments, auditors should test and challenge the reasonableness of any key RSE’s judgements and assumptions applied in the valuation: see ASA 540.</p> <p>Note: The above does not constitute an exhaustive list of audit procedures and auditing standards that the auditor should consider when auditing RSEs’ unlisted investments.</p> <p><i>[ASIC Report defines ‘fund manager’ as:</i></p> <ul style="list-style-type: none"> • <i>a responsible entity of a registered (retail) managed investment scheme, trustee of an unregistered (wholesale) managed investment scheme, or</i> • <i>in relation to valuation, a person (including an external investment manager) engaged to value MIS units, MIS underlying assets or unlisted investments.]</i>
2	Audit materiality	<p>When setting audit materiality for RSEs, auditors should apply professional judgement and carefully consider the requirements in ASA 320, and the following:</p> <ul style="list-style-type: none"> • Should a lower level of materiality be determined — for example, based on income or revenue instead of total or net assets — to cater for the financial information needs of the members and users of the RSE’s financial reports? Members are interested in the risks and performance of their own portfolios when making investment decisions and in the RSE’s overall performance. • Is any class of transaction, balance or disclosure qualitatively material — for example, sponsorship and advertising expenses?
3	Audit documentation	<ul style="list-style-type: none"> • When documenting audit work, auditors should apply the requirements of ASA 230 and ensure that the audit engagement file sufficiently documents the: <ul style="list-style-type: none"> ○ the audit procedures performed ○ the evidence obtained ○ the basis for conclusions reached, including any professional judgements made, and ○ the basis of their use of, and the extent of their review of, the other auditors’ work. • Audit documentation must be recorded in a timely manner.



AUASB Project Plan

Project Title:	Revision of Guidance Statement GS 007 <i>Audit Implications of the Use of Service Organisations for Investment Management Services</i> (Australian version) and EG Au8 <i>Audit Implications of the Use of Service Organisations for Investment Management Services</i> (New Zealand version)
Date Prepared:	29 April 2025
Date Approved:	14 May 2025
Office Member:	Rajen Pillay / Thinus Peyper
AUASB Member:	Klynton Hankin

Overview of Project

Information Gathering/Background

GS 007 was first issued in March 2008 and subsequently updated and reissued on 25 October 2011 by the AUASB. EG Au8 was issued in September 2013.

More recent feedback from external stakeholders (i.e. audit firms and regulators) highlighted that the audit landscape has evolved since 2011 with for example, changes in auditing standards, and changes in technology and its use by entities. Therefore, the current version of GS 007 requires updating to bring it in line with current practice. Further details are noted under the project scope area below.

Consistent with the Principles of harmonisation of Australian and New Zealand Standards, the AUASB and NZAuASB will work on updating GS 007 and EG Au8 jointly to achieve consistency where appropriate across jurisdictions.

At the AUASB Board Meeting in November 2024 Klynton Hankin (current Board Member) agreed to act in the capacity of project sponsor for the GS 007 revision. A subsequent meeting was held with him in December 2024 to get a brief overview of the issues with the application of GS 007 and to inform the scope of the project. The issues have been further informed by input from Project Advisory Group (PAG) members, both before and during an initial PAG meeting on 2 April 2025.

Stakeholder engagement

GS 007/EG Au8 is widely used in the investment management services industry. Key stakeholders impacted by the revision to GS 007 and EG Au8 are:

- service/subservice organisations that provide investment management and related services to the superannuation and wealth management industry and their auditors providing assurance on the design and effective operation of relevant controls; and
- user entities (e.g. managed schemes, responsible entities, registrable superannuation entities and RSE licensees/trustees) and the auditors of their financial reports.

Another stakeholder group for input may include the Australian Custodial Services Association (ACSA), an industry body representing members of Australia's custodial and investment administration sector. It is also

expected that we will hold ongoing discussions with ASIC and the NZ FMA which regulate financial reports and audits. The NZAuASB will also endeavour to seek input from any relevant stakeholder groups in New Zealand.

Scope

Project Objective

To review and revise both GS 007 and EG Au8 regarding key issues with its application by auditors of financial reports of entities in the investment management and superannuation industry.

Project Scope

The GS 007 application scope will remain as described in paragraph 1 i.e. guidance provided to:

- (i) user auditors of a financial report of a user entity which uses a third-party service organisation to provide investment management services; and
- (ii) service auditors of those service organisations who provide reports on controls (or financial information) which may be used as audit evidence in the audit of the user entity's financial report.

A similar scope is outlined in EG Au8.

To meet the project objective this project will address the application issues with the current guidance having regard to feedback from external stakeholders (i.e. audit firms and practitioners) that undertake audit work in the investment management services industry.

The application issues to be addressed are outlined in the **Appendix** to this project plan identified by the PAG chair and members. These issues will be refined as we progress with the review.

The review of GS 007/EG Au8 and the approach to issues identified will be informed by a review of guidance/practices in the US and UK (i.e. SSAE 18 in the US (2017) and ICAEW 01/20 AAF in the UK (2020)), and possibly other jurisdictions.

Issues Out of Scope of this project

The project is confined to the use of service organisations in the context of a financial report audit. The update will not cover, for example, sustainability reporting and associated value chain reporting by service organisations. This will be addressed as a separate project at a future date.

Project Governance

Project Advisory Group (PAG)

To assist both Boards with this project, we have formed a **PAG** to advise on the development of proposed amendments to GS 007 and the NZ explanatory guide EG Au8. The PAG comprises member representatives from the largest audit firms (large national network firms) from Australia and New Zealand. The PAG Chair is Klynton Hankin who has subject matter expertise in the financial services sector.

The Australian AUASB and NZAuASB sought from its respective Boards (sourced from their audit firms) nominations of suitably experienced individuals to serve on the PAG. As required by paragraph 62 of the AUASB Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications, the AUASB Chair made the final decision on selecting PAG members to ensure appropriate representation on the PAG. Appropriate representatives of the NZAuASB staff were consulted in making his decision.

Targeted Implementation Date

The reporting period targeted is years ending 30 June 2026 and later. It is planned to provide a final draft in February/March 2026 for review and approval by both Boards (refer action plan below).

Risks/Issues

Risk/Issue to meeting project objective	Planned Mitigation Activities
Scope not well defined – “scope creep”	Discussions at PAG and AUASB (including approval of this project plan) to clearly define scope
Amendments go beyond or are not consistent with the underlying requirements in Auditing Standards (ASA 402 and ASAE 3402)	Review by PAG and AUASB

Action Plan

Action plan steps outlined in table below.

Date	Description/AUASB timing	Date	NZAuASB Timing
14 Feb 2025	Initial discussion AUASB staff	18 Feb 2025	Initial NZAuASB Discussion
2 April 2025	Project scope issues discussed at 1 st PAG meeting – inform plan		Joint project same timing
		9 April 2025	NZAuASB updated on project progress and scope
14 May 2025	Plan approval by AUASB Board	TBC	Plan approval by NZ Board
3 April to Dec 2025	Project work undertaken and ongoing PAG review		Joint project same timing
Jan/Feb 2026	Early draft of GS/EG for PAG review		Joint project same timing
Feb/Mar 2026	Final draft of GS/EG to Board for review/approval	Feb/Mar 2026	Final draft of GS/EG to Board for review/approval

Communication with stakeholders

The necessary AUASB / NZAuASB protocols will be followed to issue updated non-authoritative pronouncements. The AUASB will have regard to its *Due Process Framework*.

Appendix

Project scope issues are detailed in the table below. This is subject to further consideration/refinement during the PAG process.

	Issues / Observations	Related Action / Response
A. Subservice organisations		
1	<p>Subservice organisations (SSO) and the inconsistent application of the carve out method. Where carve out is applied some principles-based guidance including:</p> <ul style="list-style-type: none"> • Initial risk assessment procedures to justify why SSO is carved out. • Monitoring of controls by the service organisation to evidence design and operating effectiveness of controls at the SSO to support a conclusion regarding achievement of the in-scope objectives. • Adequacy of reporting around control objectives/controls by service/subservice organisation? • Consideration of ability to obtain sufficient appropriate audit evidence on the relevant control objectives where there are carved out SSOs. 	
2	<p>Limitations on user auditor access to SSOs where controls are at the SSO rather than the service organisation.</p> <ul style="list-style-type: none"> • Consider whether guidance may be useful for SSOs that are considered significant and the absence of a contractual relationship between the user entity and the SSO – linking into issue 1 above on risk assessments and possible carve out (e.g. superannuation fund audits)? 	
B. Gap periods		
3	<p>Gaps in time periods between:</p> <ol style="list-style-type: none"> service organisations relying on subservice organisations; and service organisations and user entity financial reporting year end. <p>Applying a risk lens, clarity on the nature and extent of additional audit procedures that could be used by user/service auditor to address:</p> <ul style="list-style-type: none"> • Coverage of a gap period and over what duration. • Risk considerations around duration of the gap, nature of the control and system changes; and the criticality of the service provider to the subject matter. • Consider regulatory requirements / expectations i.e. ASIC, NZ FMA? <p>For example, consideration may be given to the impact of combination of:</p> <ul style="list-style-type: none"> • the gap period at a subservice organisation; and • the time lag between the date of the report from the service organisation auditor and the balance date of the entity subject to audit. 	

	Issues / Observations	Related Action / Response
C. Nature and extent of controls testing (and related considerations)		
4	<p>Clarity on requirements for evidencing the extent of controls testing (including IT dependencies) on the following.</p> <ul style="list-style-type: none"> • The extent of testing on automated controls or key reports, and IT dependent manual controls? Can it be assumed that service auditor has tested the IT dependency for report generation and completeness and accuracy of the source population as part of an IT dependent manual control or should this be set out in the GS007/EG Au8 report? • Where control samples are selected from a population, what testing has been performed over the completeness and accuracy of the population. <p>NB: Further clarity around definition of:</p> <ul style="list-style-type: none"> • in-scope IT systems underpinning reporting (and therefore subject to Section G IT controls) • the key reports subject to controls/substantive testing. 	
5	<p>Are controls described at too high a level leading to inconsistency in interpretation (including GS 007/EG Au8 section G on IT).</p> <ul style="list-style-type: none"> • Do descriptions need to be more specific and more clearly articulated (e.g. details of precision of review controls, in-scope systems tested)? • Need for further guidance over description of controls (including examples). 	
6	<p>Should service organisation auditors provide clarity on the approach to determining sample sizes, provide sample sizes in reports and reference the frequency of testing for each control with the report? Alternatively, should reliance be placed on the professional judgement of the service organisation auditor.</p> <ul style="list-style-type: none"> • Some base line level of sampling might be included within GS007/EG Au8. • Guidance would not be provided on how auditors should determine sizes. 	
7	<p>Extent to which roll forward test procedures are performed over differing period ends, and whether and how this is disclosed in service organisation auditor reports. It may be appropriate to draft based on UK guidance AAF 01/20.</p>	
D. Other areas of challenge		
8	<p>Use of EoM (emphasis of matter) when controls exist but were not required to operate within the period (e.g. controls over client acceptance where no new clients were accepted).</p> <ul style="list-style-type: none"> • Clarifying when and how such matters should be reported is seen as important for consistency and for informing the user auditor's conclusions. 	

	Issues / Observations	Related Action / Response
9	<p>Expectations on interaction between user auditor and service auditor having regard to likely report content, particularly where the report will be received late in the audit.</p> <ul style="list-style-type: none"> • Communication throughout to avoid surprises when final report is received. • Timing of the receipt of the controls report to allow sufficient time for the user entity auditor to use the evidence it contains prior to completion of the user entity's audit. Further procedures may be required for opinion modifications and/or deviations reported, as well as seeking more clarity on the controls tested, etc. • Clarifying the expectations regarding findings and qualification – any additional information required to be included in the report or to support the report to assist user entity auditors or auditors of the service organisation • Disclosure of procedures undertaken to determine completeness and accuracy of population where completed? 	
10	<p>Section G control objectives (GS 007/EGAu8) – while GS 007/EG Au8 is focused on the impact on financial reporting, GS 007/EG Au8 might include a statement that service organisation reports may also need to address controls to address operational resilience or other matters reporting required by regulatory bodies. This could include business continuity plans and cyber-security. However, guidance on these matters would remain outside the scope of GS 007/EG Au8.</p>	
11	<p>Consider covering emerging service providers in addition to custodians and fund administrators.</p>	

GS 007
(June 2026)

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

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

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Australian Government

Auditing and Assurance Standards Board

Obtaining a Copy of this Guidance Statement

This Guidance Statement is available on the Auditing and Assurance Standards Board (AUASB) website: www.auasb.gov.au

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Important Note

Guidance Statements are developed and issued by the AUASB to provide guidance to auditors and assurance practitioners on the application of AUASB Standards and, where relevant, legislation, regulation or other authoritative publication, to assist auditors and assurance providers to comply with Standards. Guidance Statements are intended to assist auditors and assurance practitioners in applying an existing standard or standards of general application to particular circumstances or specialised industries/sectors.

Guidance Statements are designed to provide guidance to auditors and assurance practitioners to achieve the objective(s) of the audit or other assurance engagement. Accordingly, Guidance Statements refer to, and are written in the context of a specific AUASB Standard(s); and where relevant, legislation, regulation or other authoritative publication. Guidance Statements are not aimed at providing guidance covering all aspects of the audit or other assurance engagement.

Guidance Statements, whilst formally approved and issued by the AUASB, do not establish new principles or amend existing standards. Guidance Statements therefore do not include any additional requirements or extend or vary the existing requirements of any AUASB Standards and are not legally enforceable.

Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services* provides guidance to auditors on <type here>. It is not, and is not intended to be, a substitute for compliance with relevant AUASB Standard(s) and auditors and assurance practitioners are required to comply with the relevant AUASB Standard(s) when conducting an audit or other assurance engagement.

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AUTHORITY STATEMENT

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

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

This Guidance Statement does not prescribe or create new requirements.

Dated: <TypeHere>

D Niven
Chair - AUASB

Conformity with International Pronouncements

There is no pronouncement issued by the International Auditing and Assurance Standards Board equivalent to this Guidance Statement.

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GUIDANCE STATEMENT GS 007

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

Application

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

Issuance Date

2. This Guidance Statement is issued on [...] 2026 by the AUASB and replaces Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*, issued in October 2011. It is operative for reporting periods commencing on or after 1 January 2027.

Introduction

3. This Guidance Statement provides guidance to:
 - (a) user auditors in applying Auditing Standard ASA 402 *Audit Considerations Relating to an Entity Using a Service Organisation*, when using reports on controls at a service organisation, and other Australian Auditing Standards, when using service auditor's reports on financial information as audit evidence relating to investment management services provided by the service organisation; and
 - (b) service auditors in applying Standard on Assurance Engagements ASAE 3402 *Assurance Reports on Controls at a Service Organisation*, when engaged to report on controls, and other Australian Auditing Standards, when engaged to report on financial information, relating to components of user entities for which investment management services are provided by the service organisation.
4. Part A of this Guidance Statement (paragraphs 22-76) provides guidance to user auditors but is to be read in conjunction with, and is not a substitute for referring to the requirements and application material contained in, ASA 402, when using a service auditor's report on controls, or Australian Auditing Standards, when using a service auditor's report on financial information. This Guidance Statement is applicable to user auditors when:
 - (a) the services provided are part of the user entity's information system, including related business processes, relevant to financial reporting;¹
 - (b) audit evidence required by the user auditor regarding internal controls and/or assertions is located at the service organisation; and

¹ See ASA 402, paragraph 3.

- (c) reports on controls at the service organisation and/or a service auditor's report on specified assertions or a financial statement of the user entity's balances or transactions relating to the services provided by the service organisation are available.
5. Part B of this Guidance Statement (paragraphs 77-145) provides guidance to the service auditor but is to be read in conjunction with, and is not a substitute for referring to the requirements and application material contained in ASAE 3402, when reporting on controls, and Auditing Standard ASA 805,² when reporting on financial information.

Types of Reports

6. This Guidance Statement provides guidance for the preparation and use as audit evidence of the following reports:
- (a) Reports on the description and design of controls at a service organisation (type 1 report) or description, design and operating effectiveness of controls at a service organisation (type 2 report), relating to the service organisation's system over the investment management services provided to user entities, prepared in accordance with ASAE 3402.
 - (b) Service auditor's reports on financial information, prepared in accordance with ASA 805,³ comprising either:
 - (i) a service auditor's report on specified assertions regarding balances or transactions of the user entity reported in a financial statement 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 financial statement of the user entity's balances or transactions ("statement") reported by the service organisation which provides investment management services ("service auditor's report on a statement").
7. Type 1 and 2 reports on controls comprise:⁴
- (a) A service organisation's description of its investment management services system, including identification of:
 - (i) the services covered;
 - (ii) the date or period to which the description relates;
 - (iii) control objectives, including the control objectives listed in Appendix 3 of this Guidance Statement, for the relevant investment management services provided; and
 - (iv) related controls.
 - (b) A written assertion by the service organisation that, in all material respects, and based on suitable criteria:

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

³ ASA 800 *Special Considerations—Audits of Financial Reports Prepared in Accordance with Special Purpose Frameworks* is also applicable if the financial information is a financial report or complete set of financial statements prepared in accordance with a special purpose framework.

⁴ See ASAE 3402, paragraph 9.

- (i) the description fairly presents the service organisation's system as designed and implemented;
 - (ii) the controls related to the control objectives stated in the service organisation's description of its system were suitably designed as at the specified date, for a type 1 report, or throughout the period, for a type 2 report; and
 - (iii) for a type 2 report, the controls operated effectively throughout the specified period.
- (c) A service auditor's assurance report that conveys reasonable assurance about the service organisation's assertions, including for type 2 reports, a description of the tests of controls and the results thereof.
8. A type 1 report is used by a user auditor to understanding the entity in accordance with Auditing Standard ASA 315,⁵ whereas a type 2 report may also be used by a user auditor in responding to assessed risks in accordance with Auditing Standard ASA 330.⁶ A type 2 report is not necessary, if the user auditor concludes that the risk of material misstatement will not be affected by the controls at the service organisation, or that it is more appropriate to gather the evidence required by other means, including obtaining a service auditor's report on financial information.
9. 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.

⁵ See ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment*.

⁶ See ASA 330 *The Auditor's Responses to Assessed Risks*.

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
Reports on controls				
1. Type 1 report ⁷	Description and design 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.	User Auditor: ASA 402 and ASA 315 Service Auditor: ASAE 3402	Engagement letter and service auditor’s type 1 report: No example provided as this report is not likely to meet the needs of all user auditors.
2. Type 2 report ⁸	Description, design, and operating effectiveness of controls at the service organisation.	Planning: Obtaining an understanding of the user entity and its environment: as for type 1 reports. Responding to the assessed risks of material misstatement when evidence is required of the operating effectiveness of controls over the services provided at the service organisation.	User Auditor: ASA 402 and ASA 330 Service Auditor: ASAE 3402	Engagement letter: Appendix 1 Example 1. Service Organisation’s assertion and description of its system: Appendix 2. Minimum Control Objectives: Appendix 3. Service auditor’s type 2 report: Appendices 4 and 5.
Reports on financial information				
3. Service auditor’s report on specified assertions ⁹	Specified assertions regarding balances or transactions of the user entity	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 805	Engagement letter: Appendix 1 Example 2 Service auditor’s report: Appendix 6 Example 1

⁷ See paragraph 8 of this Guidance Statement.

⁸ See paragraph 8 of this Guidance Statement.

⁹ See paragraph 7(b)(i) of this Guidance Statement.

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
	reported in a Statement.			
4. Service auditor's report on a Statement ¹⁰	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 805	Engagement letter: Appendix 1 Example 3 Service auditor's report: Appendix 6 Example 2

¹⁰ See paragraph 7(b)(ii) of this Guidance Statement.

Reports Not Specifically Addressed in this Guidance Statement

10. The guidance in this Guidance Statement is based on reasonable assurance engagements. It does not apply to an engagement to provide a review conclusion on controls based on limited assurance, however, it may be adapted, as necessary in the circumstances, to an engagement to provide limited assurance on specified assertions or a Statement. A review conclusion from the service auditor may be appropriate where the user auditor is engaged to perform a review of the user entity's financial report. The service auditor exercises professional judgement in applying this Guidance Statement to a review and, when reporting on specified assertions or a Statement, complies with the requirements of relevant standards on review engagements.
11. 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.
12. The user auditor may request the user entity to obtain from the service auditor, or directly engage the service auditor to provide, a report on agreed-upon procedures. Agreed-upon procedures engagements may be appropriate in certain circumstances to provide evidence that the user auditor requires, for example when:
 - A type 2 report is provided, however the user auditor requires more evidence with respect to controls over a specified area, such as unit pricing.
 - Provision of a service auditor report on controls is not agreed in the service level agreement or contract, but the user auditor nevertheless requires selected controls to be tested at the service organisation.
 - A service auditor's report on specified assertions is provided for assets under the custody of a custodian, but does not address assets outside the custody of the custodian for which the custodian provides investment administration services. Additional agreed-upon procedures are performed to assist the user auditor to obtain evidence on the existence or valuation of the assets outside the custody of the custodian.
 - A service auditor's report on specified assertions is provided as described in this Guidance Statement, however further audit procedures are required by the user auditor in obtaining sufficient appropriate audit evidence with respect to particular assertions. For example, with respect to the assertion of valuation, agreement of valuation input variables to source data may be required by the user auditor.

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

13. ASA 402 does not apply to services provided by financial institutions which are limited to processing of transactions that are specifically authorised by the user entity.¹² Therefore reports prepared under ASAE 3402 are not usually necessary for banks processing clients' account transactions or brokers processing clients' securities transactions. Nor does ASA 402 apply to transactions relating to financial interests in other entities when those interests are accounted for and reported to interest holders. Therefore, reports under ASAE 3402 are not generally necessary for unitised funds or other investments of an entity for which prices are publicly available. Hence, a user entity's direct investments in unitised funds (e.g. managed investment schemes) are outside the scope of this guidance statement, irrespective of whether they are internally and externally managed. However, unitised funds or other investments may themselves be user entities that use service organisations to provide investment management services. In such cases those arrangements are within the scope of this Guidance Statement, in

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

¹² See ASA 402, paragraph 5.

which case it is appropriate for the service organisation to provide a type 1 or 2 report. Unitised funds and unit pricing of those funds are addressed in the control objectives within this Guidance Statement only in the context of service organisations which provide administration services to unitised funds as user entities, including the management of the unitised fund's own unit registry and unit pricing.

Services Relevant to this Guidance Statement

14. This Guidance Statement has been developed specifically for circumstances where service organisations provide investment management services to user entities, where those services and the controls over them, are part of the user entity's information system, including business processes, relevant to financial reporting,¹³ and as a result are relevant to the audit of a user entity's financial report. The Investment Management Services addressed in this Guidance Statement are:

- Custody.
- Asset Management.
- Property Administration Management.
- Superannuation Member Administration.
- Investment Administration.
- Registry.
- Information Technology

Each of these services is defined in Appendix 3.

15. Controls over the calculation of unit pricing are not included as part of the services addressed in this Guidance Statement as reliance can generally be placed on the publicly available unit price, where appropriate, with additional procedures to assess the bona fides of the fund such as sighting audited financial statements of the fund, for the assertion of valuation for investments in unitised funds. If user auditors require assurance over unit pricing, for governance or compliance purposes, they may request that control objectives and controls for unit pricing are included in the service organisation's description of the system and audited by the service auditor.

16. Operators of investor directed portfolio services (IDPS)¹⁴ and investor directed portfolio-like services are required by [ASIC Class Order 02/294¹⁵](#) and [Class Order 02/296¹⁶](#) to obtain an auditor's report providing: *[ASIC Class Order references to be updated]*

- (a) an opinion on the internal controls and other relevant accounting procedures as they relate to the specific annual investor statements; and

¹³ The circumstances under which a service organisation's services are part of a user entity's information system, including business processes, relevant to financial reporting, are provided in ASA 402, paragraph 3.

¹⁴ "IDPS" means an investor directed portfolio service, consisting of a number of functions including a custody, settlement and reporting system and service. The clients of the service have the sole discretion to decide what assets will be acquired or disposed of. The service is provided in such a way that clients are led to expect, and are likely to receive, benefits in the form of access to investments that the client could not otherwise access directly or cost reductions by using assets contributed by the client or derived directly or indirectly from assets contributed by the client with assets contributed by other clients or derived directly or indirectly from assets contributed by other clients.

¹⁵ See ASIC Class Order 02/294 *Investor Directed Portfolio Services*.

¹⁶ See ASIC Class Order 02/296 *Investor Directed Portfolio-like Services Provided Through a Registered Managed Investment Scheme*.

- (b) a review conclusion on the annual investor statements, quarterly reports in certain circumstances and information accessible to clients electronically.

These class orders provide requirements for the form and content of the report in these circumstances. Reports provided under these class orders may provide sufficient appropriate audit evidence for a user auditor. If additional evidence is required by the user auditor, a service auditor's report on controls or on financial information may be requested. IDPS or IDPS-like services generally include custody and investment administration, consequently, if a type 1 or 2 report is provided, the user auditor can reasonably expect the operator (service organisation) and service auditor to report on the control objectives for the relevant services provided in this Guidance Statement.

17. Online platforms (e.g., Wrap platforms, Digital asset custody platforms, etc.) are not explicitly addressed as part of the services addressed in this Guidance Statement. These services generally include asset management, investment administration and custody, consequently, if a type 1 or 2 report is provided, the user auditor can reasonably expect the operator (service organisation) and service auditor to report on the control objectives for the services provided in this Guidance Statement, adapted as necessary to address other key risks or assertions and control objectives that are relevant in the circumstances.
18. While this Guidance Statement has been developed for services that impact user entity financial reporting, Appendix 3 include controls over maintaining the integrity of client financial data because such controls are considered relevant to financial reporting. If the service organisation's report is to include controls to address additional aspects of operational resilience (related to business continuity plans and cybersecurity) or other matters required by regulatory bodies, the service auditor's report would need to be broader than the controls described in Appendix 3.
19. Types of service organisations which provide some or all of the investment management services addressed in this Guidance Statement include:
- Custodians.
 - Third Party Administrators.
 - Investment Managers.
 - Registrars.
 - Trust Departments of Financial Institutions.
 - Prime Brokers.
20. The responsible parties which typically engage the services of these service organisations on behalf of user entities, include but are not limited to:
- Trustees of Superannuation Funds.
 - Responsible Entities for Registered Managed Investment Schemes.
 - Trustees of Unregistered Unit Trusts.
 - Boards of Insurance Companies.
21. 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

22. 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.

Risk assessment procedures

23. In addition to the risk assessment procedures performed in accordance with ASA 315 (Revised 2019), ASA 402 requires the user auditor to obtain an understanding of the nature and significance of the services that the service organisation provides to the user entity and the effect of those services on the user entity's system of internal control.
24. When the user auditor plans to rely on controls at the service organisation to reduce testing from substantive procedures, ASA 402 requires the user auditor to obtain evidence about the operating effectiveness of those controls.
25. The user auditor may not be able to obtain the above-mentioned understanding or evidence at the user entity. It may also not be practicable for the user auditor to contact or visit the service organisation. The user auditor is therefore likely to request management to obtain a type 1 or 2 report to provide the necessary understanding¹⁷ and/or evidence.¹⁸

Subservice organisations

26. Service organisations often outsource activities to other specialist organisations. The outsourced activities may form an integral part of the service organisation's responsibilities towards user entities. If not, the specialist organisation is regarded as a supplier. A specialist organisation is regarded as a subservice organisation if the outsourced activities and related controls affect the achievement of the service organisation's relevant control objectives. Relevant control objectives relate to services that are included in the scope of the engagement.
27. If the service organisation uses a subservice organisation, the user auditor also obtains an understanding of the nature and significance of the services provided by the subservice organisation. As described in paragraph 25 of this Guidance Statement, the user auditor will likely use a type 1 or 2 report¹⁹ to obtain the necessary understanding, and has regard for the service auditor's risk assessment procedures described in paragraphs 90 to 100 of this Guidance Statement.
28. There are two methods that the service organisation can apply to deal with subservice organisations in the type 1 or 2 reports, namely the carve-out method and the inclusive method. Regardless of the method applied, the service organisation retains responsibility for the control activities that have been outsourced to the subservice organisation, and managing the risks associated with those control activities. The service organisation also monitors the effective operation of controls over activities carried out on its behalf.
29. Therefore, the service organisation's description under both methods includes the nature of the relevant services performed by the subservice organisation, which support the achievement of the service organisation's control objectives. The type 2 report also describes the service organisation's monitoring control activities at the governance (strategic and contractual relationship) level and operational level.

¹⁷ See ASA 402, paragraph 12

¹⁸ See ASA 402, paragraph 16.

¹⁹ See ASA 402, paragraphs 18 and A40 (referring to paragraphs 9-14).

30. If the inclusive method is applicable, the user auditor normally obtains evidence of the operating effectiveness of the subservice organisation's controls by using a type 2 report of the service organisation. With this method, the scope of the service auditor's assurance also covers the subservice organisation's relevant control activities.
31. If the carve-out method is applicable²⁰, the user auditor normally obtains evidence of the operating effectiveness of the subservice organisation's controls by either:
- Using a type 2 report of the subservice organisation's relevant control activities, if available; or
 - Using a type 2 report of the service organisation's monitoring controls over the subservice organisation's relevant control objectives and activities. Relevant monitoring controls may include, for example:
 - (at the governance level) review of contractual terms, review of established service standards (or service level agreements), or periodic service level meetings; and
 - (at the operational level) review of daily reconciliation exception reports, review of monthly Net Asset Value reports or review of daily back-up completion reports.
32. In the unusual circumstances when the above information is not available or only a type 1 report is available, the user auditor may, through the user entity, request the service organisation:
- To apply the inclusive method for the subservice organisation; or
 - To provide access to the service organisation so that the user auditor can perform the necessary procedures at the service organisation, or the service auditor/another auditor can perform the procedures described in paragraph 12 of this Guidance Statement.

Using a Type 1 or Type 2 Report on Controls

33. The user auditor is required to determine whether the type 1 or 2 report provides sufficient appropriate audit evidence to support the user auditor's understanding of the design and implementation of controls at the service organisation.²¹
34. A type 1 report cannot be relied upon to reduce the level of substantive procedures conducted by the user auditor, as it does not provide any evidence of the operating effectiveness of the controls reported upon. Consequently, the usefulness of a type 1 report to a user auditor is limited to planning the audit, assessing the risk of material misstatement and designing further audit procedures.
35. The user auditor is required to determine whether the type 2 report provides sufficient appropriate audit evidence that the controls relevant to the user auditor are mitigating the user auditor's assessed risks of material misstatement at the assertion level.²²

Time period covered by the type 2 report

36. As part of determining whether the type 2 report provides sufficient appropriate audit evidence, the user auditor evaluates the time period covered by the tests of controls²³. When the type 2 report does not cover the period of the user entity's financial statements that are

²⁰ See ASA 402, paragraphs 18 and A40 (referring to paragraphs 15-16)

²¹ See ASA 402, paragraphs 14.

²² See ASA 402, paragraph 17.

²³ See ASA 402, paragraphs 17(c) and A32.

- being audited, the user auditor determines whether there is a possibility that the controls could have changed in the remaining period.
37. In doing so, the user auditor considers whether information that came to their attention (while performing other procedures), could indicate that changes occurred in the service organisation's controls. Errors identified during substantive testing could for example be an indication of a change in the underlying controls.
38. The user auditor also enquires of the user entity's management whether they have identified any changes in the service organisation's controls after the period covered by the type 2 report or identified any errors in the service organisation's processing. Examples of where these changes might be identified, include the following:
- Changes communicated to user entity management from the service organisation.
 - Changes in personnel at the service organisation with whom user entity management interacts.
 - Changes in reports or other data received from the service organisation.
 - Changes in contracts or service level agreements with the service organisation.
39. The user auditor evaluates the effects of any changes in the service organisation's controls on the effectiveness of the user entity's internal control over financial reporting, as applicable, and considers the factors described below to determine whether additional evidence is needed about the operating effectiveness of controls over the remaining period²⁴:
- The assertions to which the tests of controls relate.
 - The significance of the assessed risks of material misstatement related to those assertions.
 - The specific controls that were tested (i.e. their nature, for example automated or manual controls, and their frequency, for example monthly, weekly, daily or multiple times a day).
 - The degree to which audit evidence about the operating effectiveness of those controls was obtained.
 - The length of the remaining period taking into account the date of the assurance report which will be later than the period end of the controls report (the longer that period, the more persuasive the evidence would need to be).
 - The extent to which the substantive procedures are intended to be reduced by the controls.
 - The effectiveness of the control environment and the user entity's process to monitor the system of internal control.
40. Additional audit evidence typically includes obtaining a bridging letter from the service organisation attesting that the internal controls are still operating effectively. The information provided in a bridging letter is equivalent to making high-level enquiries of the service organisation's management, which provides the following information:
- A summary of any significant changes to the system description;

²⁴ See ASA 402 paragraph A33

- Details of any significant changes to the risks, control objectives or control activities;
 - Details of any major and relevant other exceptions, and their impact on the control objectives;
 - [other]; and
 - A statement by senior management that they have assessed the effectiveness of the control activities and provide the results thereof.
41. When the remaining period is up to 3 months, and the bridging letter does not identify significant changes, the user auditor evaluates the combination of evidence gathered (see paragraphs 36 to 40) in concluding whether sufficient appropriate audit evidence has been obtained. Depending on the circumstances, it may not be necessary to obtain any further audit evidence.
42. When the remaining period is more than 3 months, up to and including 6 months, and the bridging letter does not identify significant changes, it is likely that the user auditor will obtain additional audit evidence by, for example, testing the user entity's process to monitor the service organisation's system of internal control²⁵, or requesting that tests of controls be performed over the remaining period.
43. When the remaining period is more than 6 months, up to and including 9 months, and the bridging letter does not identify significant changes, it is likely that the user auditor will obtain additional audit evidence by, for example, requesting that tests of controls be performed over the remaining period.
44. When there are significant changes in any of the remaining periods described in paragraphs 41 to 43 of this guidance statement, the user auditor obtains audit evidence by requesting that tests of controls be performed on the amended controls over the remaining period.
45. If additional audit evidence from tests of controls, as described in paragraphs 41 to 44, cannot be obtained on the remaining period, it is likely that the user auditor will increase the extent of substantive testing. The user auditor's substantive testing approach may involve using the service auditor to perform these tests, using another auditor, or alternatively the user auditor undertaking the testing themselves at the service organisation.

Service auditor's description of tests performed and the results thereof

46. As part of determining whether the type 2 report provides sufficient appropriate audit evidence, the user auditor considers the service auditor's description of the tests carried out and the results thereof. Exceptions noted by the service auditor, or a modified opinion, do not automatically mean that the service auditor's type 2 report will not be useful for the audit of the user entity's financial statements.
47. The user auditor considers the service auditor's description of the tests performed, the results of those test and analysis of the cause of any exceptions noted and therefore how they affect the user auditor's reliance on the related controls, and whether further substantive procedures are needed. The matter giving rise to a modification could be used in assessing the risks of material misstatement, or the matter giving rise to a modification may not be pervasive and therefore the auditor may be able to rely on the operating effectiveness of unaffected controls. See paragraphs 102 to 113 of this Guidance Statement on the service auditor's description of the nature timing and extent of testing and paragraphs 125 to 126 on modified opinions.
48. If the impact of an exception or matters giving rise to a modified opinion are not apparent from the description, the user auditor may discuss such matters with the service auditor. See

²⁵ See ASA 402 paragraph A34

the section on “communicating with the service auditor” below, for guidance on communication practices.

Other considerations when using a type 1 or 2 report

49. Whilst the user auditor makes their own assessment of the relevance of the service auditor’s tests of controls to the assertions in the user entity’s financial report, when investment management services are provided, the user auditor can reasonably expect:
- (a) each of the control objectives specified in this Guidance Statement²⁶ for the relevant investment management service/s to be addressed in the service organisation’s description of its system and assertion;
 - (b) the related controls identified to be reported on by the service auditor; and
 - (c) adequate justification to be provided by the service organisation for any control objectives for which no related controls are identified.
50. When the service organisation reports against the minimum control objectives provided in this Guidance Statement it assists the user auditor to:
- Compare directly the controls in place at different service organisations providing the same investment management services.
 - Collate the results of the controls tested where multiple service organisations are used to provide the same service.
 - Identify omissions in the user entity’s description of the system or gaps in the system of control over the relevant investment management services.
51. If the assurance report on controls was prepared by a service auditor practicing in another jurisdiction, or by a service provider that does not follow this Guidance Statement, the user auditor assesses the adequacy of the evidence that the assurance report provides. In assessing the sufficiency and appropriateness of the evidence that the assurance report provides, in addition to consideration of the matters required in ASA 402,²⁷ the user auditor:
- compares the control objectives with the minimum control objectives in appendix 3 as a means of assessing the suitability of the control objectives used as criteria in the assurance report provided;
 - compares the sample sizes with the minimum sample sizes in paragraph 9107 as a means of assessing the sufficiency of the evidence that the controls report provides
 - confirms that the service auditor’s procedures include procedures over the completeness and accuracy of the population from which items were selected for testing.

If the above-mentioned information is not apparent, the user auditor may discuss such matters with the service auditor. See the section on “communicating with the service auditor” below, for guidance on communication practices.

User-entity monitoring controls

52. User-entity monitoring controls (such as review of exception reports, reconciliations, performance reports and contract compliance reviews) provide information about whether the outputs produced by the service organisation remain consistent with expectations. These controls assist the user auditor in understanding the user entity's oversight of the service organisation and may reduce the risk of material misstatement arising from changes in the service organisation's processing.

However, these monitoring controls ordinarily do not provide direct evidence of the design or operating effectiveness of controls at the service organisation, and therefore do not eliminate the need for:

- a Type 2 report; or
 - audit procedures performed at the service organisation, where required under ASA 402 or ASA 330.
53. Where inherent risk is assessed as significant, reliance on monitoring controls alone is unlikely to provide sufficient appropriate audit evidence.
54. Monitoring controls may also provide additional evidence for portions of a period not covered by a Type 2 report (refer to "Time period covered by the type 2 report" section above), particularly where:
- the remaining period is short;
 - no significant changes or exceptions are identified; and
 - the monitoring controls operate with sufficient frequency and precision.

Using a Service Auditor's Report on Financial Information

55. In responding to the assessed risks of material misstatement, if sufficient appropriate audit evidence is not available from records held at the user entity, ASA 402 requires the user auditor to perform further audit procedures or use another auditor to perform those procedures at the service organisation.²⁸ Whilst the user auditor may be able to rely on a type 2 report as audit evidence of the operating effectiveness of controls to mitigate identified risks of material misstatement, a type 2 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.
56. Service organisations which provide investment management services may provide the user entity with a single financial statement regarding financial information of the user entity ("Statement") periodically in accordance with either a general purpose framework or special purpose framework.²⁹ 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 unaudited 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 unaudited financial information obtained from the service organisation, such information may not

²⁸ See ASA 402, paragraph 15.

²⁹ See ASA 700 *Forming an Opinion and Reporting on a Financial Report* for the definition of general purpose framework and ASA 800 for the definition of special purpose framework.

constitute sufficient appropriate audit evidence on which the user auditor could form an opinion.

57. 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 are usually 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.
 - 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.

These procedures alone, or even in combination with a type 1 or 2 report on controls over the relevant investment management services, may not generate sufficient appropriate audit evidence.

58. The user auditor exercises professional judgement to determine whether the results of procedures conducted at the user entity as described in paragraph 57 of this Guidance Statement, considered alone or in combination with a type 1 or 2 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 service auditor's report on financial information; or
- (b) gains access to the records and other information relating to the user entity in the possession of the service organisation.

59. Individual circumstances determine whether a service auditor's report on financial information 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 service auditor's report on specified assertions or on a Statement, the user auditor exercises professional judgement to make this determination in the particular circumstances of the engagement.

60. A service auditor's report on a Statement, as defined in paragraph 6(b)(ii) of this Guidance Statement, may be the most effective way to obtain sufficient appropriate audit evidence for all assertions regarding the user entity's balances or transactions contained in the Statement provided by the service organisation. This type of report may also be required by the user auditor if there is a potential or identified significant deficiency in the service organisation's controls, or there are material errors identified in the service organisation's reports.

61. The user auditor may be able to obtain sufficient appropriate audit evidence through substantive testing 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 substantive testing for specified assertions for the user entity's financial statement line items, as defined in paragraph 6(b)(i) of this Guidance Statement, could provide the audit evidence required. This may include any of the assertions identified in ASA 315, which are:

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

See also paragraph 12 on agreed-upon-procedures engagements, which are outside the scope of this guidance statement.

62. In evaluating the audit evidence provided by a service auditor's report on financial information, 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 type 1 or 2 report, provided by the service auditor's report on financial information regarding the assertions on which evidence is required;
 - (c) the impact of any modification to the service auditor's report on financial information on the sufficiency and appropriateness of the evidence provided by the report;
 - (d) the effect of any uncorrected misstatements reported by the service auditor in an attachment to their report, as described in paragraph 144 of this Guidance Statement; and
 - (e) the effect of any other matters, including significant deficiencies in internal control, significant findings from the audit, or fraud identified during the audit or reported by the service organisation to the user entity.

Materiality for Service Auditor's Reports on Financial Information

63. Paragraphs 139 to 140 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 determining performance materiality under Auditing Standard ASA 320³⁰ for the classes of transactions, account balances or disclosures affected by the services of the service organisation, may determine that the performance 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 performance materiality. The manner in which such a request is ordinarily communicated is discussed in paragraphs 65 to 70 of this Guidance Statement.
64. 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 service auditor's report on financial information, as described in paragraph 144 of this Guidance Statement.

Communicating with the Service Auditor

65. ASA 402 requires the user auditor to obtain an understanding of the nature of the relationship between the user entity and the service organisation, including the relevant contractual terms

³⁰ See ASA 320 *Materiality in Planning and Performing an Audit*.

for the activities undertaken by the service organisation. The contract or service level agreement may specify whether:³¹

- (a) a type 1 or 2 report on controls will be provided;
 - (b) the user auditor will have access to the accounting records of the user entity maintained by the service organisation and other information relevant to the audit; and
 - (c) the agreement allows for direct communication between the user auditor and service auditor.
66. If there is no direct relationship between the user auditor and the service auditor, communication is conducted through the user entity and service organisation. This is often the case when using a report on controls as there may be multiple user entities for which the report is provided. In considering the reliability of the information to be used as audit evidence,³² if a report on controls is provided indirectly through the user entity and service organisation, the user auditor remains alert to fraud risk factors in the context of establishing the report's authenticity.
67. The user auditor may engage the service auditor directly, subject to relevant ethical and confidentiality considerations, to provide a report on financial information of the user entity maintained by the service organisation.³³
68. The user auditor's engagement letter may provide for the user entity to obtain from the service organisation, where possible, a type 1 or 2 report, a service auditor's report on financial information or agreement to direct communication between the user auditor and the service auditor.
69. In order to consider the impact of any exceptions identified by the service auditor (and whether changes are required to the nature timing and extent of audit procedures), prior to the agreed date for issuing the audit report on the user entity's financial statements, the user auditor may set expected:
- timeframes in the engagement letter for receiving the type 1 or 2 report and/or a service auditor's report on financial information.; and
 - circumstances under which the service auditor should communicate with the user auditor, for example, the service auditor may become aware of significant exceptions or may experience delays in completing the assurance engagement.
70. The user entity should in turn agree these expectations with the service organisation.

Communicating With Those Charged With Governance of the User Entity

71. The user auditor is required under the Australian Auditing Standards to communicate any of the following matters identified to those charged with governance of the user entity on a timely basis:
- (a) significant deficiencies in internal control identified during the audit;³⁴
 - (b) significant findings from the audit;³⁵

³¹ See ASA 402, paragraphs 9(d) and A8.

³² See ASA 500 *Audit Evidence*.

³³ See ASA 402, paragraph A9.

³⁴ See ASA 265 *Communicating Deficiencies in Internal Control to Those Charged with Governance and Management*.

³⁵ See ASA 260 *Communication with Those Charged with Governance*.

- (c) uncorrected misstatements and the effect they, individually or in aggregate, may have on the opinion in the auditor's report,³⁶ and
- (d) fraud, identified or suspected, involving management, employees who have significant roles in internal control or others where the fraud results in a material misstatement, as well as any other matters related to fraud that are relevant to their responsibilities.³⁷
72. 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 45 of this Guidance Statement, 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.
 - Enquiries of those charged with governance, management or others within the user entity regarding whether any matters reported to those charged with governance of the service organisation, which may affect one or more user entities, have been reported by the service organisation to the user entity.
 - Identification of any deviations reported by the service auditor in the type 1 or 2 report and evaluation of whether those deviations represent significant deficiencies in the user entity's internal control.
 - Enquiries regarding the reasons for any modification to the service auditor's type 1 or 2 report or report on financial information.
 - Identification of any uncorrected misstatements reported by the service auditor, in an attachment to the service auditor's report on financial information as described in paragraph 144 of this Guidance Statement.
73. If a type 1 or 2 controls report is available, ASA 402 requires the user auditor to enquire of management of the user entity whether the service organisation has reported to the user entity, or the user entity is aware of, any fraud, non-compliance with laws and regulations or uncorrected misstatements affecting the financial report of the user entity. These matters of governance interest may be communicated to the user entity by the service organisation, otherwise the service auditor is required to take appropriate action, which may include communication of such matters directly to the user entity. The service auditor may become aware of such matters as a result of the written representations which it is required to obtain from the service organisation. In addition, 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 71 of this Guidance Statement, that may affect the user entity. The user auditor evaluates the effect of any matters reported on the nature, timing and extent of further audit procedures.³⁸
74. 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 71 of this Guidance Statement, 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.

³⁶ See ASA 450 *Evaluation of Misstatements Identified during the Audit*.

³⁷ See ASA 240 *The Auditor's Responsibilities Relating to Fraud in an Audit of a Financial Report*.

³⁸ See ASA 402, paragraphs 19 and A41, and ASAE 3402, paragraphs 38 and 56.

Reporting by the User Auditor

75. If the user auditor concludes that the user entity's financial report contains material misstatements with respect to the services provided by the service organisation or that the user auditor is unable to obtain sufficient appropriate audit evidence regarding the services provided by the service organisation relevant to the audit to form an opinion, Auditing Standard ASA 705 requires the user auditor to modify their opinion on the user entity's financial report.³⁹
76. In accordance with ASA 402,⁴⁰ when using a type 1 or 2 report on controls, and Auditing Standards ASA 600 and ASA 620,⁴¹ when using a service auditor's report on financial information, the user auditor does not refer to the work of a service auditor in the user auditor's report, unless required to do so by law or regulation or if it is relevant to understanding a modification to the user auditor's opinion.

B: GUIDANCE FOR THE SERVICE AUDITOR

Types of Engagements

77. Under a contract, offer document or service level agreement, the service organisation may agree to provide the user entity periodically with a type 1 or 2 report on controls, prepared in accordance with ASAE 3402, 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 service auditor's report on the Statement or specified assertions, issued in accordance with ASA 805.

Engagements to Report on Controls

Nature and Scope of Engagement

78. 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 criteria for an engagement to report on a service organisation's controls, include control objectives.⁴² 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 3 of this Guidance Statement sets out the control objectives which the user entity can expect to be included in type 1 or 2 reports for each of the relevant investment management services. The service organisation may choose to include additional control objectives in the type 1 or 2 report. Additional control objectives may be included where those objectives are relevant to user entities' financial reporting or to meet compliance reporting requirements or the terms of the service level agreement, offer document or contract.
79. The service organisation may also include information that is not relevant to user entities' financial reporting and is therefore outside the scope of the service auditor's report. The service auditor recommends that such information be placed in a separately distinguishable section within the type 1 or 2 report, which is titled 'Other information provided by the service organisation', or a similar appropriate title. It may also be appropriate to clearly label the information as 'unaudited'. Refer to paragraphs [121] for examples of other information and the service auditor's work effort on such information.

³⁹ See ASA 705 *Modifications to the Opinion in the Independent Auditor's Report* and ASA 402, paragraph 20.

⁴⁰ See ASA 402, paragraphs 21 and 22. .

⁴¹ See ASA 600 *Special Considerations—Audits of a Group Financial report (Including the Work of Component Auditors)* and ASA 620 *Using the Work of an Auditor's Expert*.

⁴² See ASAE 3402, paragraph 16.

Acceptance and Continuance of Engagements to Report on Controls

80. When agreeing to accept, or continue, an engagement to report on controls at a service organisation, ASAE 3402⁴³ requires the service auditor to assess whether the criteria will be suitable and available to user entities and their auditors. In doing so, the service auditor determines whether the criteria include the control objectives provided in this Guidance Statement for the relevant investment management services and, if any objectives are omitted or amended, whether the service organisation has adequately disclosed and justified that omission or amendment.
81. An example of an engagement letter for engagements to report on controls is provided in Appendix 1 Example 1.

Ethical Requirements

82. ASAE 3402 requires the service auditor to comply with relevant ethical requirements including those pertaining to independence, relating to assurance engagements, which does not necessitate the service auditor being independent from each user entity.⁴⁴
83. 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. Threats to independence may also arise with respect to subservice organisations where the controls of the subservice organisation are included in the service organisation's description of its system, under the inclusive method.⁴⁵
84. Service auditors may also need to consider the manner in which their type 1 or 2 report is used and distributed by the service organisation. Examples of how this matter may be addressed in the engagement letter and in the service auditor's type 2 report are contained in Appendix 1 Example 1 and Appendix 4 respectively.

58. Responsibilities of the Service Organisation

85. The service organisation typically prepares a description of its system to meet the needs of all user entities of a particular investment management service or services. A type 1 or 2 report on the controls at a service organisation covers investment management services provided to user entities which are likely to form part of those user entities' information systems relevant to financial reporting.
86. An example of a service organisation's assertion and description of its system is shown in Appendix 2 of this Guidance Statement. The description of each investment management service provided in this Guidance Statement is indicative and not definitive.

Assessing the Suitability of the Criteria

87. In assessing whether the service organisation has used suitable criteria in preparing the description of the system, evaluating whether controls are suitably designed and, in the case of type 2 reports, in evaluating whether controls are operating effectively, in accordance with ASAE 3402,⁴⁶ the service auditor determines whether the minimum control objectives provided in this Guidance Statement⁴⁷ for the relevant investment management service or services are included in the description of the system.
88. It is the responsibility of the service organisation to ensure that the control objectives are sufficient to meet the expectations of user entities and that any omissions or amendments to

⁴³ See ASAE 3402, paragraphs 13-14 for requirements in accepting and continuing an engagement to report on controls at a service organisation.

⁴⁴ See ASAE 3402, paragraph 11.

See ASAE 3402, paragraph 9(g).

⁴⁶ See ASAE 3402, paragraphs 15-18 for further requirements in assessing the suitability of the criteria.

⁴⁷ See Appendix 3 of this Guidance Statement.

the minimum control objectives are appropriate. A service organisation may therefore consider the need to add further objectives and supporting controls where appropriate. The service auditor evaluates the suitability of any additional control objectives specified by the service organisation, by determining if they meet the characteristics of relevance, completeness, reliability, neutrality and understandability.⁴⁸

89. If the service organisation omits or amends a control objective from GS 007 or adds further control objectives, the service auditor can expect those omissions, amendments or additional objectives to be clearly identified in the service organisation's description of the system. If a control objective is omitted, the service organisation may list that objective and note briefly the reasons for its omission. If a control objective is amended to clarify the intended meaning, such as use of terms appropriate to the service organisation's circumstances, or the control objective is expanded, the relevant GS 007 control objective may be treated as included. However, if the meaning of the control objective is changed or the scope of the objective reduced by the modifications, then it is appropriate for the service organisation to report the relevant GS 007 objective as omitted and report the modified objective as an additional objective in the description of the system.

Obtaining an understanding of the service organisation's system, and evaluating the design and implementation of controls

90. ASAE 3402⁴⁹ requires the service auditor to obtain an understanding of the service organisation's system, including controls (manual and automated) that are included in the scope of the engagement. Procedures to gain this understanding may include:
- Discussing aspects of the control framework and relevant control activities with management and other personnel of the service organisation;
 - Determining who the user entities are and how the services provided by the service organisation are likely to affect the user entities, for example, the predominant type of user entities; and
 - Reviewing standard terms of contracts with user entities to gain an understanding of the service organisation's contractual obligations.
91. This understanding includes the service auditor's identification of IT applications and aspects of the IT environment that are subject to risks arising from the use of IT. The service auditor also identifies the general IT controls that address the risks arising from the use of IT.
92. General IT controls can be described as controls over the entity's IT processes that support the continued proper operation of the IT environment, including the continued effective functioning of information processing controls (over IT applications/programmes) and the integrity of information in the information system.
93. Service organisations may use emerging technologies (e.g., blockchain, robotics or artificial intelligence) because such technologies may present specific opportunities to increase operational efficiencies or enhance financial reporting. When emerging technologies are used in the service organisation's information system relevant to financial reporting, the service auditor may include such technologies in the identification of IT applications and other aspects of the IT environment that are subject to risks arising from the use of IT.
94. The service auditor evaluates whether control activities (including general IT controls) are suitably designed and implemented, by:

⁴⁸ See ASAE 3000 *Assurance Engagements other than Audits or Reviews of Historical Financial Information*, on assessing the suitability of criteria.

⁴⁹ See ASAE 3402, paragraph 20.

- Considering the linkage between the control activities and the associated control objectives;
- Considering the ability of the control activities to prevent or detect errors related to the control objectives;
- Performing walk-throughs of selected transactions and the impact of Control Activities; and
- Performing further procedures, using a combination of the following:
 - Enquiry of appropriate service organisation personnel;
 - Inspection of documents and reports;
 - Observation of the application of specific control activities, 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; and
 - Re-performance of a reconciliation or calculation.

Subservice organisations

95. Paragraph 26 of this Guidance Statement describes that service organisations often outsource activities to specialist organisations and when such organisations are regarded as subservice organisations. When subservice organisations are applicable, the service auditor obtains an understanding of the outsourced activities and related controls. Sources of information to inform the service auditor's understanding may include:
- a type 2 report of the subservice organisation's control activities;
 - publicly available information from third parties such as complaints from other users, exceptions reported by regulators as applicable; and
 - information produced by the subservice organisation, taking into account the reliability of such information (for example, exception reports from the subservice organisation's internal auditors).
96. The service auditor further obtains an understanding of the service organisation's monitoring controls over specialist organisations regarded as subservice organisations (i.e., ongoing monitoring activities, separate evaluations, or a combination thereof).

Obtaining evidence regarding the service organisation's description

97. To determine the fair presentation of those aspects of the description that are within the scope of the engagement, the service auditor compares their understanding of the service organisation's services provided to user entities with management or those charged with governance's assertions. Fairly described control activities are factual, objective, specific and verifiable, and do not omit or distort significant information that may affect the user entities' and auditors' assessments of control risk.
98. Fairly described control activities include a complete set of associated control objectives that are developed based on the objectives in Appendix 3 of this Guidance Statement, for the relevant investment management services provided by the service organisation. If any objectives have been omitted or amended, the service auditor evaluates the adequacy of the reasons for their omission or amendment (also see paragraphs 80 of this Guidance Statement).
99. If there are any inappropriate or unexplained omissions or material modifications with regard to the control objectives, the service auditor requests management, or those charged with

governance, to amend the description. If it is not amended, the service auditor considers the implications on the service auditor's assurance report.

*Subservice organisations*⁵⁰

100. The service auditor also determines the adequacy of the description of the services performed by subservice organisations. I.e., whether the description identifies controls at the service organisation and the subservice organisation individually (for the inclusive method); and/or the functions that are performed by the subservice organisation (for the carve-out method). When the carve-out method has been applied, the service auditor understands the reasons for applying the method and the adequacy of the reasons.

Conducting the Assurance Engagement to Report on Controls

101. The service auditor complies with the requirements of ASAE 3402 when conducting an assurance engagement to report on controls at the service organisation when:⁵¹
- (a) obtaining evidence regarding the operating effectiveness of controls;
 - (b) considering the work of an internal audit function;
 - (c) obtaining written representations from the service organisation;
 - (d) considering other information;
 - (e) enquiring and, if necessary, disclosing subsequent events; and
 - (f) preparing and assembling documentation.

Obtaining evidence of the operating effectiveness of controls

102. The service auditor performs tests of controls (manual and automated) to obtain evidence about the operating effectiveness of relevant control activities during a specified reporting period. Operating effectiveness is concerned with how a control activity is applied, the consistency with which it is applied, and by whom it is applied. The service auditor determines the nature, timing and extent of the tests to be performed to form their opinion on the operating effectiveness of the control activities.

Nature

103. Tests of controls include enquiry of the appropriate personnel and a combination of observation of the application of the control activities, inspection of relevant documentation and/or re-performance of the control activity.

Timing

104. These tests provide evidence that enables the service auditor to report on the entire period covered by the type 2 report. The Service Auditor is required to use evidence relating to the reporting period only⁵². Each control activity is assessed for operating effectiveness for the specified reporting period or for the period covered by the type 2 report.
105. Certain control activities pertaining to the reporting period may not have evidence of their operation at year-end. Where such control activities operate at a later date, the service auditor tests the operating effectiveness at that later date before finalising the audit because the control activities pertain to the reporting period. For example, tax controls that operate after year-end,

⁵⁰ If subservice organisations are applicable, the service auditor of a service organisation that uses the services of the subservice organisation is also a user auditor.

⁵¹ See ASAE 3402, paragraphs 24-52.

⁵² See ASAE 3402 paragraph 24

and user access recertification controls that is triggered at a point in time and is ongoing through the year and finalised after year-end.

Extent

106. When testing a sample, the service auditor applies their own sampling formula established in accordance with prevailing audit and assurance standards. In determining the number of items to be tested for each control activity, the service auditor considers a combination of the following attributes:

- Frequency of operation (e.g., daily, weekly);
- Nature of operation (e.g., manual, automated);
- The risk that the control activity seeks to mitigate;
- Complexity of control activity (e.g., number of people involved, number of steps to be performed);
- Level of judgement within operation (e.g., approval of estimates without tolerance settings);
- Likelihood of error (e.g., previous years' exceptions and modified opinions); and
- Degree of centralisation of operation (e.g., harmonised procedure manuals, centralised training, centralised governance).

107. The table below is an example to assist service organisations, user entities and user auditors to understand the minimum number of items the service auditor may test for manual controls with a 'low' risk of not achieving the control objective, based on a 12-month reporting period. The service auditor may choose to vary sample sizes for longer or shorter reporting periods. Sample sizes increase the higher the service auditor's assessment of the risk. The service auditor's assessment is affected by the attributes listed in paragraph 99 of this Guidance Statement. The increase may also vary based on each audit firm's formula for calculating sample sizes.

Frequency of manual controls	Assumed population of control occurrences	Illustrative (minimum) sample sizes based on risks assessed as 'low'
Annual	1	1
Quarterly	4	2
Monthly	12	2
Weekly	52	5
Daily	250	20
Multiple times per day	Over 250	25
Ad-hoc (e.g. when a certain type of transaction or activity occurs)	Various	Depends on population size and service auditor's professional judgement

108. The service auditor describes the nature, timing and extent of the tests performed (including relevance and reliability tests described in paragraphs 102 to 106) in an appendix to the service auditor's report. See appendix 5 for further details on the service auditor's description.

109. In describing the extent of testing, the service auditor indicates the frequency of the control and whether the items tested represent a sample or all the items in the population. To enhance the transparency of the extent of work performed, the service auditor may either describe the number of items (or the percentage of the population) tested, or include a table of (minimum) sample sizes.

110. Where exceptions are reported, the service auditor provides information about the sample or population size, the number of exceptions, and an analysis of their cause to describe the results of the tests performed and indicate the significance or impact of the exceptions (i.e., whether or how they diminish the operating effectiveness of the control activity in achieving the stated control objective). The service auditor may also describe the mitigating controls and other factors considered in concluding whether the opinion should be modified or not. If an exception is identified for a control activity that supports more than one control objective, the exception is reported against each control objective.
111. It is common practice for management to provide responses to the exceptions identified by the service auditor. These responses are included in the Type 2 report because they provide context around the exception and explain any mitigation strategies or remediation steps that management performed. If the responses are unaudited, service auditor makes that clear and excludes such information from the scope of the assurance opinion.
112. In addition to the work effort on Other Information described in paragraph 121 of this Guidance Statement, the service auditor considers whether unaudited management's responses could potentially diminish the importance / significance of the exceptions.
113. Where the service auditor is unable to test a described control activity because, for example, it was not required to operate during the year, they state the fact that no tests have been carried out and the reason in their description of tests.

Relevance and reliability of information to be used as audit evidence

114. Where control activities to be tested depend upon the completeness and accuracy of information produced by the service organisation, the service auditor determines whether it is necessary to obtain evidence supporting the operating effectiveness of controls over the production of that information.
115. This may arise where a manual control activity relies upon the completeness and accuracy of information included in a system-generated report. For example, 'management reviews a system report to identify any client agreement breaches'; in this example the operating effectiveness of the control activity is dependent on the operating effectiveness of the automated controls relating to completeness and accuracy of the information within that report.
116. An automated control can be expected to function consistently unless the IT application (including the tables, files, or other permanent data used by the IT application) is changed. Once the service auditor determined that an automated control is functioning as intended (which could be done at the time the control is initially implemented or at some other date), they perform tests to determine that the control continues to function effectively. Such tests may include testing the general IT controls⁵³ related to the IT application (including change controls).
117. When using information produced by the service organisation, the service auditor evaluates whether the information is sufficiently reliable for their purposes, including, as necessary:
- Obtaining evidence about the completeness and accuracy of the information;
 - Testing the controls in place that support the completeness and accuracy of the information; and/or
 - Evaluating whether the information is sufficiently precise and detailed for the service auditor's purposes.

⁵³ See section G in Appendix 3 of this Guidance Statement, related to general IT control objectives.

Subservice organisations when carve-out method is applicable

118. The service organisation's system description includes monitoring controls over the operating effectiveness of controls at the subservice organisation. The service auditor undertakes a review of one or more of the following monitoring controls for adequacy as part of the type 2 assurance engagement:
- reviewing contractual terms, established service standards (or service level agreements), or holding periodic service level meetings with the subservice organisation;
 - reviewing and reconciling output reports (e.g., daily reconciliation exception reports, monthly Net Asset Valuation reports and daily back-up completion reports);
 - making regular site visits to the subservice organisation;
 - testing control activities at the subservice organisation by the service organisation's internal audit function;
 - reviewing reports on the subservice organisation's systems, if available, prepared in accordance with recognised standards (such as those produced by the AUASB, NZAuASB, IAASB); and
 - monitoring external communications, such as user entity complaints relevant to services provide by the subservice organisation.
119. The relative importance of each monitoring control to a particular engagement and whether one or more controls should be tested for adequacy is a matter of professional judgement based on the service auditor's understanding obtained in paragraphs 118 of this Guidance Statement.

Time period covered by the type 2 report

120. The user auditor guidance on the 'time period covered by a type 2 report' may equally apply to the service auditor if the service auditor relies on such a report to obtain evidence of the operating effectiveness of controls at a subservice organisation. See paragraphs 36 to 45 of this Guidance Statement.

Other Information

121. As described in paragraph 73 of this Guidance Statement, the service organisation may wish to present other information that is outside the scope of the engagement. Examples of such information include:
- Background information on the entities within the service organisation's group, the services they provide and their regulatory permissions.
 - Additional detail on the IT system architecture and data flows not included in the Description.
 - Additional information on compliance with regulatory standards over specific aspects of the business which is not directly relevant to the control activities covered by the type 1 or 2 report, but which is of interest to the user entities (e.g., regulations covering anti-money laundering, client money and data protection).
 - Additional information on measures undertaken to protect the organisation against viruses or other malicious attacks that go beyond the scope of the Description.
 - HR policies and processes.

- An outline of any planned changes to processes or IT.
 - An outline of the insurance arrangements of the service organisation.
122. The service auditor reads such information for consistency with the Description, and the service auditor’s knowledge obtained in the engagement, in the context of audit evidence obtained and conclusions reached.

The Service Auditor’s Assurance Report⁵⁴

123. The service auditor’s opinion is expressed in a written assurance report on controls attached to the service organisation’s description of its system and assertion.
124. The service auditor’s type 1 or 2 report, includes the basic elements required by ASAE 3402 with specific consideration of matters relevant to investment management services, including:
- (a) A statement that the criteria include the minimum control objectives provided in this Guidance Statement for the relevant investment management services;
 - (b) Reference that the ‘Other information provided by the service organisation’ section of the type 1 or 2 report do not fall within the scope of the engagement.
 - (c) A statement that the service organisation is responsible for:
 - (i) Providing the investment management services covered by the service organisation’s description of its system; and
 - (ii) Stating the control objectives, including those for the relevant investment management services from this Guidance Statement, and if any minimum control objectives are omitted or amended, providing an explanation of that omission or amendment.
 - (d) A section on ‘Other information’, which describes the service organisation’s and the service auditor’s responsibilities for such information and that the information is unaudited.
 - (e) Reference to an attachment that describes the nature, timing and extent of the service auditor’s tests of controls and the results thereof.

An example of a service auditor’s type 2 assurance report is shown at Appendix 4. An explanation and example of the service auditor’s description of the nature, timing and extent of tests applied to controls is provided in Appendix 6.

Reporting on Description misstatements, design deficiencies or when control activities are not operating effectively

125. When preparing the assurance report, the service auditor is required to modify their opinion in the circumstances set out in ASAE 3402.
126. If exceptions and limitations have been identified the service auditor determines the appropriate form of opinion as illustrated below. See appendix 5 for information on each opinion.

Unqualified	Qualified	Adverse	Disclaimer
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⁵⁴ See ASAE 3402, paragraphs 53-56.

No exceptions	Not material exceptions	Non-applicable control objective	Material exceptions	Material and pervasive exceptions	Possible effects of an inability to obtain sufficient appropriate audit evidence are considered material and pervasive
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Other Communication Responsibilities

127. ASAE 3402 requires the service auditor to determine whether non-compliance with laws and regulations, fraud, or uncorrected errors which are not clearly trivial, have been communicated to affected user entities and, if not, to take appropriate action.

Engagements to Report on Financial Information

Nature of Engagements

128. If the service auditor is engaged to provide a report on financial information, the service auditor issues a separate auditor’s report in respect of each user entity concerning only that user entity’s balances and/or transactions.
129. In performing an engagement to report on specified assertions or on a Statement the service auditor applies the Australian Auditing Standards and reports on the engagement under ASA 805.
130. If the service auditor has provided assurance on controls in a type 2 report, it provides 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 service auditor’s report on financial information.

Acceptance and Continuance of Audit Engagements to Report on Financial Information

131. Before accepting the engagement, the service auditor is required under Auditing Standard ASA 210⁵⁵ to determine the acceptability of the financial reporting framework, which in the case of a single financial statement or element, includes determining whether application of the financial reporting framework will result in a presentation that provides adequate disclosures to enable the intended users to understand the information conveyed and the effect of material transactions and events on the information conveyed.⁵⁶
132. The service auditor also complies with ASA 210 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 engaging party 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 service auditor’s report, uncorrected misstatements which have been aggregated during the audit, other than amounts which are clearly trivial.
 - Reference to the performance materiality level provided by the user auditor, if applicable.

⁵⁵ See ASA 210 *Agreeing the Terms of Audit Engagements*.
⁵⁶ See ASA 805.

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

133. The service auditor may be engaged by the service organisation or directly by the user entity or user auditor. If the user entity or user auditor engages the service auditor directly, access to the service organisation's records will need to be agreed with the service organisation. Access to the service organisation's records may be allowed for in the service level agreement with the user entity or by separate agreement. The agreement may provide for the service organisation to receive a copy of the auditor's report and notification of any matters of governance interest communicated as described in paragraph 143 of this Guidance Statement.

Ethical Requirements

134. In accordance with Auditing Standard ASA 200,⁵⁷ the service auditor is required to comply with relevant ethical requirements, including those pertaining to independence, when performing an audit of a Statement or specified assertions.
135. Relevant ethical requirements, defined in Auditing Standard ASA 102, include the fundamental principles of professional ethics, relating to the engagement to be undertaken, which are:
- (a) integrity;
 - (b) objectivity;
 - (c) professional competence and due care;
 - (d) confidentiality; and
 - (e) professional behaviour.
136. Where the service auditor is undertaking an audit of a Statement or specified assertion particular consideration needs to be given to any threats to independence with respect to the user entity since the service auditor is reporting on financial information of the user entity. Threats to independence with respect to the user entity may be present, such as self-interest or familiarity threats, notwithstanding that the user entity may not be an assurance client of the service auditor.
137. 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.
138. 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.

⁵⁷ See ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

Materiality to be Applied by the Service Auditor

139. 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. The relevant benchmark, for investment management services, on which the service auditor bases 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.
140. The service auditor often applies a percentage to the benchmark as a starting point in determining materiality under ASA 320. The user auditor may request that a particular benchmark or percentage be used by the service auditor as a basis for determining performance materiality. In the absence of a basis for materiality specified by the user auditor, the service auditor may apply a percentage of 0.5% to any of the benchmarks listed in paragraph 139 of this Guidance Statement as a reasonable basis for determining performance 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.

The Service Auditor's Report on Financial Information

141. Service auditor's reports on specified assertions or on a Statement, need to comply with the requirements in ASA 805 and as such include the basic elements of an auditor's report as set out in that standard. In addition to these elements, the service auditor includes in their report:
- (a) identification of the specific assertions audited (if the 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; and
 - (d) 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 6 Example 1 and a service auditor's report on a Statement is provided in Appendix 6 Example 2 of this Guidance Statement.

Information Excluded from the Service Auditor's Report

142. When performing an 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 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 an Audit Engagement on Financial Information

143. In the course of performing procedures for an audit engagement at a service organisation on financial information of the user entity, the service auditor is required to communicate any of the following matters identified to those charged with governance of the engaging party on a timely basis:
- (a) significant deficiencies in internal control;⁵⁸
 - (b) significant findings from the audit;⁵⁹
 - (c) uncorrected misstatements and the effect they, individually or in aggregate, may have on the opinion in the audit report of the service auditor;⁶⁰ and
 - (d) fraud, identified or suspected involving management, employees who have significant roles in internal control or others where the fraud results in a material misstatement, as well as any other matters related to fraud that are relevant to their responsibilities.⁶¹
144. In addition, the service auditor states in their 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 in Appendix 6, Examples 1 and 2.
145. When the service auditor is engaged by the service organisation and considers that any of the matters reported to those charged with governance of the service organisation may affect one or more user entities, the service auditor determines from the appropriate level of management whether this information has been communicated to the affected user 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.

⁵⁸ See ASA 265.

⁵⁹ See ASA 260.

⁶⁰ See ASA 450.

⁶¹ See ASA 240.

Appendix 1

(Ref: Para. 54 and 77)

EXAMPLE ENGAGEMENT LETTERS

The following example engagement letters are not authoritative and are intended only to be a guide that may be used in conjunction with the considerations outlined in GS 007. The engagement letters will need to be varied according to individual requirements and circumstances. They are drafted to refer to an engagement for a single reporting period and would require adaptation if intended or expected to apply to recurring engagements.⁶² It may be appropriate to seek legal advice that any proposed engagement letter is suitable.

Example 1: A service auditor's engagement letter to a service organisation for provision of assurance over a type 2 report on the description, design and operating effectiveness of a service organisation's controls.

Example 2: A service auditor's engagement letter to the engaging party for audit of specified assertions of the user entity's assets, liabilities or transactions in a financial statement prepared by a service organisation.

Example 3: A service auditor's engagement letter to the engaging party for an audit of a financial statement of a user entity's assets, liabilities or transactions prepared by a service organisation.

Example 1: Engagement Letter for a Type 2 Report on a Service Organisation's Controls

To [the appropriate representative of management or those charged with governance] of XYZ Service Organisation (XYZ):

[The objective and scope of the engagement]

You have requested that we report on the description of XYZ's [investment management service/s provided: custody, asset management, property management, superannuation member administration, investment administration or registry] system and management's assertion with respect to that description, which you will provide and which will accompany our report. The description of XYZ's [investment management service] system comprises control objectives and related controls designed to achieve those objectives for the [period] ended [date]. The control objectives included are the objectives for [investment management service] specified in Guidance Statement GS 007⁶³ and any additional objectives which are likely to be relevant to internal control as it relates to financial reporting of clients who have used the [investment management service] system.

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

[The responsibilities of the assurance practitioner]

We will conduct our assurance engagement in accordance with Standard on Assurance Engagements ASAE 3402 *Assurance Reports on Controls at a Service Organisation* and with reference to Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*. ASAE 3402 requires that we comply with ethical requirements and plan and perform

⁶² See ASA 210.

⁶³ See Appendix 3 of this Guidance Statement.

procedures to obtain reasonable assurance about whether, in all material respects, XYZ's description of the [investment management service] system is fairly presented, the controls are suitably designed, and operating effectively throughout the reporting period. An assurance engagement involves performing procedures to obtain evidence about the description, design and operating effectiveness of controls. The procedures selected depend on the assurance practitioner's judgement, including the assessment of the risks of significant deficiencies in the [investment management service] system.

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

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

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

[The responsibilities of management and identification of the applicable control framework]

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

- (a) for the preparation of a written assertion that, in all material respects, and based on suitable criteria:
 - (i) the description fairly presents XYZ's [investment management service] system designed and implemented throughout the period;
 - (ii) the controls related to the control objectives stated in XYZ's description of its system were suitably designed throughout the specified period; and
 - (iii) the controls related to the control objectives stated in XYZ's description of its system operated effectively throughout the specified period.
- (b) for design of the system, comprising controls which will achieve control objectives which are likely to be relevant to clients', who have used the [investment management service] system, internal control as it relates to financial reporting;
- (c) to provide us with:
 - (i) Access to all information of which those charged with governance and management are aware that is relevant to the design, implementation and operation of the [investment management service] system;
 - (ii) Additional information that we may request from those charged with governance and management for the purposes of this assurance engagement; and
 - (iii) Unrestricted access to persons within the entity from whom we determine it necessary to obtain evidence.

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

XYZ's description of the system will include the minimum control objectives for [investment management service] set out in GS 007, but they may add to or amend these to the extent necessary such that the control objectives are likely to be relevant to internal control as it relates to financial reporting of clients, who have used the [investment management service] system. If [management/those charged with governance] consider any of the control objectives from GS 007 for [investment management service] are not applicable to XYZ or require amendment, then they will include an explanation of the omission of or amendment to that objective in XYZ's description of the system.

[Assurance Approach]

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

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

Due to the complex nature of internal control, our assurance procedures will not encompass all individual controls at XYZ, but will be restricted to an examination of those controls reported which achieve the control objectives identified by XYZ's management in the "Description of the [investment management service] System" provided to us.

[Assurance Procedures]

Our assurance procedures are likely to include:

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

In undertaking this engagement, we shall work closely with XYZ's internal audit function and place reliance on their work in accordance with Auditing Standard ASA 610 *Using the Work of Internal*

Auditors [this paragraph is applicable where the work of internal audit is an integral part of the assurance engagement].

[Assurance Report]

The format of the report will be in accordance with ASAE 3402 and will include an opinion on the “Description of the [investment management service] System” by XYZ management and an accompanying description of the tests of controls that we performed and the results of those tests. An example of the proposed report is contained in the appendix to this letter.

Our report will be issued [frequency] and will cover [period reported on] (paragraph is appropriate for recurring engagements).

The assurance report will be incorporated in a report issued by XYZ containing information prepared by XYZ management to provide clients and their auditors with an overall understanding of [subject matter]. We will review the contents of the report issued by XYZ to identify any material inconsistencies with the “Description of the [investment management service] System”.

[Distribution of the Assurance Report]

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

Our assurance report will be prepared for this purpose only and we disclaim any assumption of responsibility for any reliance on our report to any person other than to XYZ’s clients and their auditors or for any purpose other than that for which it was prepared.⁶⁴

[Significant Deficiencies in Controls]

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

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

If our assurance engagement discloses that there are significant deficiencies in the system of controls in operation during the period covered by the report, such deficiencies will be disclosed in our report even if they were corrected prior to the end of the reporting period. However, our report will indicate that such deficiencies were corrected if that is the case. If any significant deficiencies 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 assurance engagement will be to enable us to issue the above described report, we will also periodically provide you with letters containing recommendations for strengthening controls if such matters are observed during the process of the assurance engagement.

⁶⁴ Use of the report and 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.

Although issues raised may not represent significant deficiencies in the system of controls, recommendations will address areas where we believe controls could be improved.

We look forward to full co-operation from your staff during our assurance engagement.

[Other relevant information]

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

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our assurance engagement to report on the controls over XYZ’s [investment management service] services to clients, including our respective responsibilities.

Yours faithfully

(signed)

.....

Name and Title

Date

Acknowledged on behalf of XYZ

(signed)

.....

Name and Title

Date

Example 2: Engagement Letter for an Audit of Specified Assertions

To [the engaging party]:⁶⁵

[The objective and scope of the audit]

You⁶⁶ have requested that we audit the [specified assertions]⁶⁷ of the assets [and liabilities or transactions] in the [title of the financial statement] of [user entity/entities] ("the Statement"), which comprises the [statement of assets and liabilities] as at [date], and the [statement of transactions] for the [period] then ended, concerning the assets and liabilities of [user entity / entities]⁶⁸ [nature of investment management service: managed by or in the custody] of the XYZ Service Organisation (XYZ) as at [date].

⁶⁵ The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons – see ASA 210.
⁶⁶ Throughout this letter, references to “you,” “we,” “us,” “management,” “those charged with governance” and “auditor” would be used or amended as appropriate in the circumstances.
⁶⁷ Insert specified assertions to be 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.
⁶⁸ Where the assets are held in the name of a nominee holding company insert “held in the name of [nominee holding company]”.

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 [specified assertions] of the assets [and liabilities or transactions] in the Statement.

[The responsibilities of the auditor]

We will conduct our audit in accordance with the Australian Auditing Standards, in particular ASA 805 *Special Considerations—Audit of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement*, and with reference to AUASB Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*. Australian Auditing Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Statement is free from material misstatement with respect to the assertions specified. This audit involves performing procedures to obtain audit evidence about the [specified assertions] 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 [specified assertions] of the assets [and liabilities or transactions] in the Statement, whether due to fraud or error. An audit also includes evaluating the appropriateness of 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 [specified assertions] of the assets [and liabilities or transactions].

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

In making our risk assessments, we consider internal control relevant to XYZ’s [specified assertions] of the assets [and liabilities or transactions] in 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 XYZ’s controls.⁶⁹ However, we will communicate to you in writing concerning any significant deficiencies in internal controls over financial reporting on behalf of [user entity / entities], that we have identified during the audit of the [specified assertions] 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 [specified assertions] of the assets [and liabilities or transactions] in the Statement, other than amounts which are clearly trivial, in an attachment to our report.

[The responsibilities of management]

Our audit will be conducted on the basis that [[the engaging party] confirm that]⁷⁰ management and, where appropriate, those charged with governance,⁷¹ of XYZ acknowledge and understand that they have responsibility:

- (a) for the [specified assertions] of the assets [and liabilities or transactions] in the Statement fairly in accordance with the basis of preparation;⁷²

⁶⁹ 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 specified assertions of the assets [and liabilities or transactions] in 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 [specified assertions] of the assets [and liabilities or transactions] in the Statement in order to design audit procedures that are appropriate in the circumstances.”

⁷⁰ Insert where the engaging party is not XYZ Service Organisation, so the engaging party needs to obtain XYZ’s acknowledgement of their responsibilities.

⁷¹ Use terminology as appropriate in the circumstances, such as “the Directors”.

⁷² 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”.

- (b) for such internal control as XYZ [management] determines is necessary to enable [specified assertions] of the assets [and liabilities or transactions] in the Statement that is free from misstatement, whether due to fraud or error;
- (c) to provide us with:
 - (i) Access to all information of which those charged with governance and management of XYZ are aware that is relevant to the [specified assertions] of the assets [and liabilities or transactions] in the Statement such as records, documentation and other matters;
 - (ii) Additional information that we may request from those charged with governance and management of XYZ for the purpose of the audit; and
 - (iii) Unrestricted access to persons within XYZ from whom we determine it necessary to obtain audit evidence.

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

We look forward to full cooperation from [XYZ and]⁷³ your staff during our audit.

[Distribution of the Auditor's Report]

We understand that our report may be incorporated in a report prepared by XYZ for distribution to [the engaging party and] the [Trustee/those charged with governance] of [user entity] for the purpose of fulfilling the [those charged with governance] of XYZ'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 [the engaging party], [those charged with governance] of XYZ, [the Trustee/those charged with governance] of [user entity / entities] and their auditor, or for any other purpose other than that for which it was prepared.⁷⁴

[Other relevant information]

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

[Reporting]

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

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

[Independence]

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

⁷³ Insert where the engaging party is not XYZ Service Organisation.

⁷⁴ Use of the report and 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*

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of [specified assertions] of the assets [and liabilities or transactions] in the Statement including our respective responsibilities.

Yours faithfully

(signed)

.....

Partner

Firm

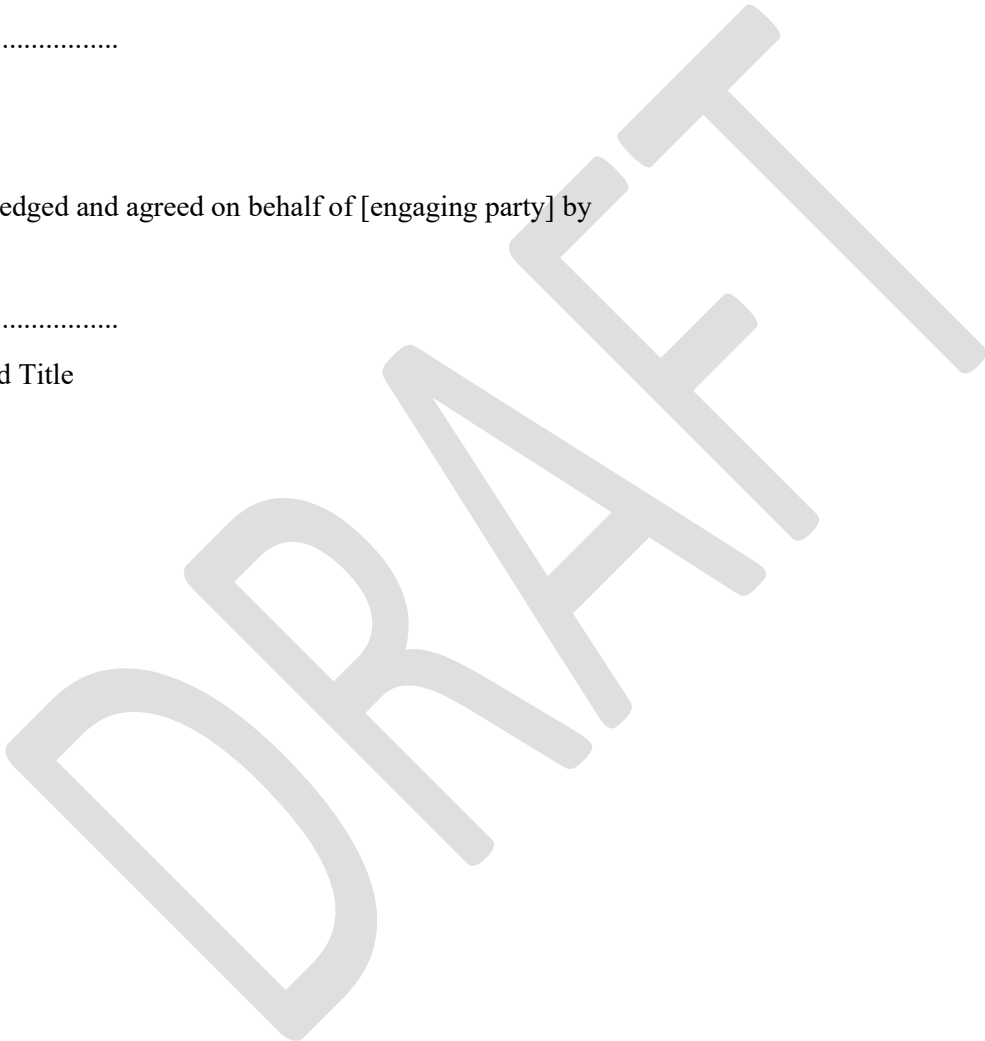
Acknowledged and agreed on behalf of [engaging party] by

(signed)

.....

Name and Title

Date



Example 3: Engagement Letter for an Audit of a Statement

To [the engaging party]:⁷⁵

[The objective and scope of the audit]

You⁷⁶ have requested that we audit the [title of financial statement] of [user entity / entities]⁷⁷ (“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 / entities]⁷⁸ [insert nature of investment management service: managed by or in the custody of] XYZ Service Organisation (XYZ) 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 Australian Auditing Standards, in particular ASA 805 Special Considerations—Audits of Single Financial Statements and Specific Elements, Accounts or Items of a Financial Statement, and with reference to AUASB Guidance Statement GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services. Australian Auditing Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the Statement is free from material misstatement. [If the user auditor has provided a materiality level to apply in the audit insert: The performance materiality level, which we will apply in determining the nature, timing and extent of audit procedures and in evaluating the effect of misstatements identified, has been provided by the auditor of [user entity / entities] and is [x] percent of [total assets/net assets]. This 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. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the Statement.

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

In making our risk assessments, we consider internal control relevant to XYZ’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 XYZ’s controls.⁷⁹ However, we will communicate to you in writing concerning any significant deficiencies in internal controls over financial reporting on behalf of [user entity / entities], that we have identified during the audit of the Statement.

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

⁷⁵ The addressees and references in the letter would be those that are appropriate in the circumstances of the engagement, including the relevant jurisdiction. It is important to refer to the appropriate persons – see ASA 210.

⁷⁶ Throughout this letter, references to “you,” “we,” “us,” “management,” “those charged with governance” and “auditor” would be used or amended as appropriate in the circumstances.

⁷⁷ If certain assertions are specifically excluded from the audit then insert: “except for [specify assertions excluded, e.g. presentation and disclosure] of the Statement”.

⁷⁸ Where the assets are held in the name of a nominee holding company insert “held in the name of [nominee holding company]”.

⁷⁹ 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.”

[The responsibilities of management and identification of the applicable financial reporting framework]

Our audit will be conducted on the basis that [[the engaging party] confirm that]⁸⁰ management and, where appropriate, those charged with governance⁸¹ of XYZ acknowledge and understand that they have responsibility:

- (a) For the preparation of the Statement that gives a true and fair view in accordance with [specify framework].⁸²
- (b) For such internal control as XYZ [management] determines is necessary to enable the preparation of a Statement that is free from misstatement, whether due to fraud or error.
- (c) To provide us with:
 - (i) Access to all information of which those charged with governance and management of XYZ are aware that is relevant to the preparation of the Statement such as records, documentation and other matters;
 - (ii) Additional information that we may request from those charged with governance and management of XYZ for the purpose of the audit; and
 - (iii) Unrestricted access to persons within XYZ from whom we determine it necessary to obtain audit evidence.

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

We look forward to full cooperation from [XYZ and]⁸³ your staff during our audit.

[Distribution of the Auditor's Report]

We understand that our report may be incorporated in a report prepared by XYZ for distribution to [the engaging party and] the [Trustee/those charged with governance] of [user entity] for the purpose of fulfilling the [those charged with governance] of XYZ'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 [the engaging party], [those charged with governance] of XYZ, [the Trustee/those charged with governance] of [user entity / entities] and their auditor, or for any other purpose other than that for which it was prepared.⁸⁴

[Other relevant information]

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

[Reporting]

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

⁸⁰ Insert where the engaging party is not XYZ Service Organisation, so the engaging party needs to obtain XYZ's acknowledgement of their responsibilities.

⁸¹ Use terminology as appropriate in the circumstances, such as "the Directors".

⁸² 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".

⁸³ Insert where the engaging party is not XYZ Service Organisation.

⁸⁴ Use of the report and 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.

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

[Independence]

We confirm that, to the best of our knowledge and belief, the engagement team is independent of [user entity / 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.

Please sign and return the attached copy of this letter to indicate your acknowledgement of, and agreement with, the arrangements for our audit of the Statement including our respective responsibilities.

Yours faithfully

(signed)

.....

Partner

Firm

Acknowledged and agreed on behalf of [the engaging party] by

(signed)

.....

Name and Title

Date

Appendix 2

(Ref: Para. 61)

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

The following example is for use as a guide only, in conjunction with the considerations described in this Guidance Statement, and is not intended to be exhaustive or applicable to all situations.

Service Organisation's Type 2 Assertion on the [Investment Management Service] System

Assertion by XYZ Service Organisation (XYZ)

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

- (a) The accompanying description at pages [bb-cc] fairly presents the [investment management service] system for processing clients' transactions throughout the period [date] to [date]. The criteria used in making this assertion were that the accompanying description:
- (i) Presents how the system was designed and implemented, including:
- The types of services provided, including, as appropriate, classes of transactions processed.
 - The procedures, within both information technology and manual systems, by which those transactions were initiated, recorded, processed, corrected as necessary, and transferred to the reports prepared for clients.
 - The related accounting records, supporting information and specific accounts that were used to initiate, record, process and report transactions; this includes the correction of incorrect
 - information and how information was transferred to the reports prepared for clients.
 - How the system dealt with significant events and conditions, other than transactions.
 - The process used to prepare reports for clients.
 - Relevant control objectives and controls designed to achieve those objectives, including the control objectives for [investment management service] provided in Guidance Statement 007 *Audit Implications of the Use of Service Organisations for Investment Management Services* except for [number excluded] control objectives which have been amended or omitted for the reasons set out in the attached Description of Controls in Operation.⁸⁵
 - Controls that we assumed, in the design of the system, would be implemented by clients, and which, if necessary to achieve control objectives stated in the

⁸⁵ Insert if certain control objectives specified in this Guidance Statement are not met by relevant controls.

accompanying description, are identified in the description along with the specific control objectives that cannot be achieved by ourselves alone.

- Other aspects of our control environment, risk assessment process, information system (including the related business processes) and communication, control activities and monitoring controls that were relevant to processing and reporting clients' transactions.
- (ii) Includes relevant details of changes to the system during the period [date] to [date].
- (iii) Does not omit or distort information relevant to the scope of the system being described, while acknowledging that the description is prepared to meet the common needs of a broad range of clients and their auditors and may not, therefore, include every aspect of the system that each individual client may consider important in its own particular environment.
- (b) The controls related to the control objectives stated in the accompanying description were suitably designed and operated effectively throughout the period [date] to [date]. The criteria used in making this assertion were that:
- (i) The risks that threatened achievement of the control objectives stated in the description were identified;
 - (ii) The identified controls would, if operated as described, provide reasonable assurance that those risks did not prevent the stated control objectives from being achieved; and
 - (iii) The controls were consistently applied as designed, including that manual controls were applied by individuals who have the appropriate competence and authority, throughout the period [date] to [date].

.....

Signed on behalf of [management or those charged with governance] of XYZ

Date

ATTACHMENT 1: Description of the [Investment Management Service] System Accompanying XYZ Service Organisation Management's Assertion

XYZ Service Organisation's [Investment Management Service] System

Services Provided

XYZ Service Organisation (XYZ) provides its clients with [investment management service/s: custody; asset management, property management, superannuation member administration, investment administration or registry] services, which involves [describe services provided].

The System

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

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

[Describe, as appropriate].⁸⁶

- *The procedures, within both information technology and manual systems, by which those transactions were initiated, recorded, processed, corrected as necessary, and transferred to the reports prepared for clients.*
- *The related accounting records, supporting information and specific accounts that were used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the reports prepared for clients.*
- *How the system dealt with significant events and conditions, other than transactions.*
- *The process used to prepare reports for clients.*

This may include a description of the flow of transactions or a flowchart].⁸⁷

[Controls at Subservice Organisations]⁸⁸

[XYZ uses [name of subservice organisation] to provide [type or name of] services, which form part of the [investment management service] system used by XYZ clients. The [type or name of] services provided by [subservice organisation] are [describe the nature of the services provided]. XYZ's description of the system includes XYZ's monitoring controls over the operating effectiveness of the controls at [subservice organisation] and [includes/excludes]⁸⁹ the relevant control objectives and related controls of [subservice organisation].

Internal Control Objectives and Related Controls

We set out in this report the control objectives and related controls implemented for XYZ. The specific controls set out in the remainder of the report have been designed to achieve each of the

⁸⁶ Aspects of the system to be described here relate to the manner in which the system operates to provide services to clients but do not include specific controls which are designed to achieve the control objectives.

⁸⁷ 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.

⁸⁸ Insert this section if XYZ uses a subservice organisation which performs some of the services provided to clients which use the system.

⁸⁹ Use "includes" if the inclusive method is used and "excludes" if the carve-out method is used with respect to the subservice organisation's services. See ASAE 3402, paragraph 9(a) for definition of carve-out method and paragraph 9(g) for definition of inclusive method.

control objectives. The controls have been in place throughout the period from [date] to [date] unless otherwise indicated.

The controls which were in operation at XYZ throughout the period from [date] to [date], or during a lesser period where specified, to ensure that the identified control objectives over [investment management service] are achieved were:

Internal Control Objective

[Control objectives, including the minimum control objectives for the relevant investment management service/s from GS 007 Appendix 3 and, for any minimum control objectives omitted, the reason for that omission.]⁹⁰

Related Controls

[List controls in operation during the specified period relating to each control objective.]

*[**Period of operation:** If the control has not been in operation the entire period or has changed, state the period during which the control was operating and the period during which the change was effective.]⁹¹*

*[**Complementary client controls:** Describe any complementary user entity controls contemplated in the design of the controls.]⁹²*

⁹⁰ Where the control objective is excluded from the system description, insert: "This control objective is not relevant to the operation of [service organisation]'s [investment management service] services because [specify reasons] and so has not been addressed by related controls."

⁹¹ This section should be inserted for each control which has not been in operation for the whole period or has changed during the period.

⁹² This section should be inserted for each control for which there are complementary user entity controls contemplated in the design of the control. See ASAE 3402 paragraph 9(b) for definition of complementary user entity controls.

Appendix 3

(Ref: Para. 14, 62)

MINIMUM CONTROL OBJECTIVES FOR EACH INVESTMENT MANAGEMENT SERVICE

This Appendix sets out detailed control objectives for the investment management services referred to in paragraph 14 of this Guidance Statement and further defined below. The control objectives listed are the minimum objectives which the service auditor and users of a type 1 or 2 report may reasonably expect to be addressed in the service organisation’s description of its investment management service system for each service, but are not intended to be exhaustive. Where a combination of multiple investment management services are provided the service organisation ensures that the combined control objectives adequately address the service offering and that additional objectives are added where there are gaps between the set of objectives for each service. For example, also see, “*Valuation governance and methodology*” control objectives under sections B and E.

The control objectives included are those which are likely to be relevant to user entities’ controls as they relate to financial reporting and not for other purposes, such as to meet compliance requirements or to assess performance with respect to service level agreements. It remains the responsibility of management, or those charged with governance, of the service organisation to ensure that the described control objectives are likely to be relevant to client’s controls as they relate to financial reporting. Unitised funds will not usually prepare controls reports as they are typically investment vehicles rather than service organisations whose controls are relied upon by user entities for financial reporting purposes. Investors in unitised funds usually obtain evidence of valuations through sources such as unit prices, investor statements and the fund’s audited financial statements. As a result, auditors of investors will not usually need to rely on controls operating within the unitised fund itself.

Control objectives for transition of specific user entities to a new investment management service organisation are also not addressed in these minimum control objectives, as they are not relevant to the general financial reporting needs of all user entities, rather they relate to each individual transitioning user entity. A separate engagement may be agreed with the service organisation and service auditor where assurance over the transition is required by the affected user entity.

Control objectives for services provided by unitised funds, unit pricing, transitions or other purposes may be included if the service organisation requires those objectives to be addressed in the engagement.

Developments in the financial market infrastructure, including the use of distributed ledger technology and tokenised assets, may introduce additional operational processes and risks that are not specifically contemplated within these minimum control objectives. For example, these technologies may change how assets are recorded, transferred or verified. Where such technologies are used, service organisations should consider whether additional control objectives are required to appropriately address the associated risks.

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 relating to user entities' assets which are held by the custodian, and reflecting such transactions 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 and account setup

- A1. New client custody agreements and subsequent amendments, including investment guidelines and restrictions, are authorised prior to commencement of custody services.
- A2. Client mandates, investment restrictions and custody service parameters are established in accordance with documented policies.
- A3. Client details and custody accounts⁹³ are completely and accurately set up in relevant systems prior to initiating custody activities.
- A4. Authorised signatories, standing settlement instructions and payment authorisation protocols (including dual approval requirements) are established prior to processing custody transactions and subsequently maintained, periodically reviewed and updated.
- A5. Opening balances for client onboarding, including in-specie transfers, are completely and accurately recorded in line with client instructions.

Authorising and processing transactions

- A6. Asset transactions are authorised and recorded completely and accurately in accordance with client instructions and any applicable regulations.
- A7. Client transaction instructions are validated against authorised signatories and client mandates prior to processing transactions.
- A8. Investment and related cash and foreign exchange transactions are authorised, processed and recorded completely and accurately within agreed timescales.
- A9. Investment and related cash and foreign exchange transactions are settled and failed trades are identified and resolved within agreed timescales.
- A10. Corporate actions are identified, processed and recorded completely and accurately within agreed timescales.
- A11. Authorised voluntary corporate actions are processed and recorded completely and accurately within agreed timescales.
- A12. Cash receipts and payments are authorised in accordance with client instructions or custody arrangements and are processed and recorded completely, accurately and within agreed timescales.

⁹³ Controls over the transition of specific user entities' funds to the custody of the service organisation are not addressed in this objective.

- A13. Lender and borrower participation in lending programs is authorised and loan initiation, maintenance and termination are recorded completely, accurately and within agreed timescales.
- A14. Loans are fully collateralised and the collateral together with its related income is recorded completely, accurately and within agreed timescales.

Maintaining financial and other records

- A15. Accounts are maintained and administered in accordance with client custody agreements and applicable governing documents.
- A16. Changes to static client data (for example, address changes, bank account changes and changes in allocation instructions) and relevant securities master data are authorised and recorded completely and accurately within agreed timescales.
- A17. Pricing and securities master data including security identifier, market information and pricing source details are established and maintained accurately based on information obtained from authorised sources.
- A18. Foreign exchange rates used for transaction processing and valuations are obtained from authorised sources and recorded or uploaded completely and accurately within agreed timescales.
- A19. Investment income and related tax reclaims are collected and recorded completely and accurately within agreed timescales.
- A20. Investments with observable prices are accurately valued using prices obtained from authorised independent pricing sources and portfolio valuations are complete and distributed within agreed timescales.
- A21. Investments without independently available observable prices or prices where only a single pricing source is available are valued according to approved pricing policies and, where necessary, using approved pricing models, assumptions and inputs.
- A22. Cash and investment positions for securities held by third parties (including sub custodians and depositories) are completely and accurately recorded and reconciled to third party data, and differences are identified, investigated and resolved within agreed timescales.
- A23. Internal records of cash and investment positions are regularly reconciled, and differences are identified, investigated and resolved within agreed timescales.

Safeguarding assets

- A24. Assets held (including investments held with depositories, cash and physically held assets) are safeguarded from loss, misappropriation and unauthorised use.
- A25. Assets held are appropriately registered in name of the client or nominee, and client money and assets are segregated and ring-fenced from the custodian's own assets in accordance with custody agreements and applicable regulations.

Monitoring compliance

- A26. Processing errors and exceptions are identified, investigated, resolved and reported to clients in accordance with established policies.
- A27. Breaches of custody agreements, governing documents (including trust deeds), and client mandates are identified and addressed in accordance with established policies.

Monitoring subservice organisations

- A28. Appointments of subservice organisations, including those providing custodian services, are subject to appropriate due diligence and approval prior to commencement of any custody activity.
- A29. Outsourced activities provided by subservice organisations are governed by authorised contracts and service level agreements that define the services to be provided and the associated performance standards, which are periodically reviewed to ensure they remain appropriate.
- A30. The services provided by subservice organisations are monitored and assessed against the performance and service standards set out in the service level agreements on an ongoing basis (e.g., reviewing subservice organisation system reports), as well as periodically (e.g., periodic service level meetings with the subservice organisation). Any breaches, service failures or emerging risks are escalated, addressed and remediated in accordance with established issue-management and escalation procedures, and reported to the service organisation within agreed timescales.

Reporting to clients

- A31. Client reporting, in respect of client cash and investment holdings, is prepared completely and accurately and provided within required timescales.
- A32. Cash and investment positions, including details of securities lent and related collateral, are reported to relevant parties completely and accurately within required timescales.

Information technology

See control objectives: **G.1 – G.16**

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.
- Determining asset valuations.
- 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.

Assets may be managed in accordance with specific client directions, under a discretionary mandate agreed by the client or through a unitised fund, with the investment strategy mandated in an offer document or client agreement. The objectives detailed below should be scoped depending on the applicability to the asset class under review.

Control Objectives:

Accepting clients and account setup

- B.1** New⁹⁴ client investment management agreements and subsequent amendments, including investment guidelines and restrictions, are authorised prior to commencement of investment services.
- B.2** Client details, accounts, investment guidelines and restrictions are completely and accurately set up in relevant systems prior to initiating investment activities, including establishment of authorised signatories, standing settlement instructions and payment authorisation protocols (including dual approval requirements). These are subsequently maintained, periodically reviewed and updated.
- B.3** Opening balances for client onboarding, including in-specie transfers, are completely and accurately recorded in line with client instructions.

Authorising and processing transactions

- B.4** Proposed investment transactions are assessed for compliance with client investment guidelines and restrictions prior to execution.
- B.5** Asset investment transactions are authorised, executed and allocated completely and accurately within agreed timescales.
- B.6** Where trades are executed for multiple client portfolios, those trades are allocated to the relevant portfolios in accordance with established allocation policies, recorded completely and accurately within agreed timescales.
- B.7** Transaction costs are complete, authorised, calculated accurately and reviewed in accordance with established procedures.

⁹⁴ Controls over the transition of specific user entities’ assets to the management of the service organisation are not addressed in this objective.

- B.8** Asset investment and related foreign exchange and cash transactions are recorded completely and accurately and communicated for settlement within agreed timescales.
- B.9** Corporate actions are processed and recorded completely, accurately and within agreed timescales. Voluntary corporate actions are authorised and processed in accordance with client instructions and investment mandates.
- B.10** Client applications/subscriptions and withdrawals/redemptions are identified, authorised where required, processed, and recorded completely and accurately within agreed timescales.⁹⁵
- B.11** Portfolio rebalancing decisions (scheduled or event-driven) are initiated in accordance with client mandates or offer documents, assessed for pre-trade compliance, approved in line with delegated authorities prior to execution, and executed and recorded completely, accurately and within agreed timescales.

Maintaining financial and other records

- B.12** Accounts are maintained and administered in accordance with client agreements, and applicable governing documents.
- B.13** Changes to static client data (for example, address changes, bank account changes and changes in allocation instructions) and relevant securities master data are authorised and recorded completely and accurately within agreed timescales.⁹⁶
- B.14** Investment income (including rental income where applicable) and related tax reclaims are completely and accurately recorded in the proper period.
- B.15** Cash and investment positions are completely and accurately recorded and reconciled to third party data within agreed timescales.
- B.16** Investments are accurately registered, and cash is segregated from that of the investment manager.
- B.17** Investment management and performance fees and other account expenses are calculated and recorded accurately in accordance with client agreement or offer documents.
- B.18** Loan covenant obligations for debt instruments held in client portfolios are monitored, with relevant covenant terms accurately captured, regularly assessed, and any actual or potential breaches identified, escalated and addressed in a timely manner

Valuation Governance and Methodology

- B.19** Valuation methodologies applied to investments are approved, documented and consistently applied in accordance with the applicable financial reporting framework.
- B.20** Investments with observable prices are accurately valued using prices obtained from authorised independent pricing sources.
- B.21** Investments without independently available observable prices or prices where only a single pricing source is available are valued according to approved pricing policies, and where necessary, using approved pricing models, assumptions and inputs, subject to independent oversight and review by those charged with governance, and governed by controls designed to manage conflicts of interest.⁹⁷

⁹⁵ Where user entities are unitised funds this objective is not usually applicable but is instead covered by the control objectives for Registry (Section F).

⁹⁶ Where user entities are unitised funds, this objective is not applicable but is instead covered by the control objectives for Registry (Section F).

⁹⁷ This objective is not intended to extend to the detailed controls over unit pricing.

- B.22** External valuations are undertaken by an appropriately qualified independent valuer on a periodic basis, reviewed and recorded completely and accurately in accordance with client requirements.
- B.23** Significant events (including indicators of impairment) that may affect the fair value of investments including market movements, issuer-specific developments, credit-related events or other valuation-relevant factors are identified, assessed and reflected in valuations in a timely manner. Any valuation overrides or adjustments are documented, supported by appropriate evidence and market inputs, subject to independent review and approval, and governed by conflict-management controls.
- B.24** Where valuations are derived from external managers or third parties, an appropriate level of independent review and challenge is performed prior to reliance.
- B.25** Valuation outcomes are reviewed, approved and overseen by personnel with appropriate authority, competence and independence prior to financial reporting.
- B.26** Investments are classified appropriately within the fair value hierarchy, and the basis for classification is documented, reviewed and supported by relevant evidence.

Safeguarding of assets

- B.27** Cash balances are held with approved counterparties and managed with regard to diversification of risk and security of funds.
- B.28** Properties are insured against loss.
- B.29** Fund liquidity is monitored and managed in accordance with established liquidity risk management policies and procedures, taking into account fund liabilities and investor redemption requirements.

Monitoring compliance

- B.30** Client investments and cash are managed in accordance with client mandates and investment objectives and monitored for compliance with applicable investment guidelines and restrictions, including pre and post transaction checks.
- B.31** Transaction errors, including guideline breaches, trading errors and client reporting errors, are identified, reported to the client and resolved in accordance with established policies.
- B.32** Transactions are conducted only with approved counterparties. Counterparty exposures are periodically monitored for compliance with established counterparty limits and guidelines, and breaches are investigated and escalated in accordance with established procedures.
- B.33** Property development projects are monitored against approved budgets, timelines and project plans and significant variances are investigated and escalated in accordance with established procedures.
- B.34** Transactions and service arrangements involving related parties are identified, reviewed, approved and documented in accordance with established conflicts of interest and related-party policies.

Monitoring subservice organisations⁹⁸

- B.35** Appointments of subservice organisations providing services relating to relevant control objectives, are subject to appropriate due diligence and approval prior to commencement of any activity.
- B.36** Outsourced activities provided by subservice organisations are governed by authorised contracts and service level agreements that define the services to be provided and the associated performance standards, which are periodically reviewed to ensure they remain appropriate.
- B.37** The services provided by subservice organisations are monitored and assessed against the performance and service standards set out in the service level agreements on an ongoing basis (e.g., reviewing subservice organisation system reports), as well as periodically (e.g., periodic service level meetings with the subservice organisation). Any breaches, service failures or emerging risks are escalated, addressed and remediated in accordance with established issue-management and escalation procedures and reported to the service organisation within agreed timescales.

Reporting to clients

- B.38** Client reporting, in respect of portfolio valuations, transactions, holdings and income, is prepared completely and accurately and provided within agreed timescales.

Information technology

See control objectives: **G.1 – G.16**

⁹⁸ Control objective for monitoring subservice organisations applies when the carve-out method is used to deal with subservice organisations. See ASAE 3402, paragraph 9(a) for definition of carve-out method.

C. Property Investment Administration

Definition:

“Property investment administration” is the performance of administrative, accounting, cash management, and reporting functions in relation to property investments, where those functions form part of a user entity’s information system relevant to financial reporting. These functions include:

- establishing and maintaining client and property records.
- administering tenancy and lease arrangements.
- processing and recording rental income, service charges, expenses, and capital expenditure.
- managing cash flows and disbursements.
- reconciling property-related balances to internal and third-party records.
- monitoring compliance with lease agreements, service level agreements, and applicable governing documents.
- overseeing outsourced property administration activities.
- preparing accurate and timely reporting to clients and regulators.

Control Objectives:

Accepting clients and account setup

- C.1** New client agreements and amendments are authorised prior to commencement of property administration activity.
- C.2** Client details, accounts and property related information are completely and accurately established onto relevant systems prior to initiating property administration activity.
- C.3** Opening balances for client onboarding are accurately recorded to clients in line with client instructions.

Authorising and processing transactions

- C.4** New tenancy agreements and leases are authorised and executed prior to occupation.
- C.5** Changes to tenancy agreements and leases are reviewed and authorised within agreed timescales.
- C.6** Rent reviews are conducted in accordance with tenancy agreements on a periodic basis and the outcome of the reviews are to be approved, recorded, and processed completely, accurately and in the proper period.
- C.7** Service charges, including property operating expenses, expense recoverables from tenants in accordance with lease agreements are calculated completely and accurately and approved in accordance with established policies.

- C.8** Suppliers of property services are approved in accordance with established supplier approval policies or administration agreements where applicable, and the approvals are documented completely and accurately.
- C.9** Capital expenditure relating to investment properties is authorised in accordance with established approval authorities and supported by appropriate documentation.

Maintaining financial and other records

- C.10** New property master data and changes to existing property master data including records related to ownership, tenant and lease information, are authorised and recorded completely and accurately within agreed timescales.
- C.11** Property income and related tax are completely and accurately recorded in the proper period and collected within agreed timescales.
- C.12** Service charges are recorded within the proper period and collected in accordance with tenancy agreements.
- C.13** Payments are supported by appropriate documentation and authorised in accordance with established approval authorities, and are processed and recorded completely and accurately within agreed timescales.
- C.14** Property management fees and other property expenses are calculated in accordance with relevant agreements appropriately authorised, and recorded completely and accurately.
- C.15** Disbursements to clients are supported by appropriate documentation, authorised in accordance with client agreements or instructions, and processed and recorded completely and accurately within agreed timescales.
- C.16** Cash relating to property management is completely and accurately recorded and reconciled to internal records and third-party data within agreed timescales (e.g. tenant ledgers, rental arrears or bank statements).

Monitoring compliance

- C.17** Breaches and errors are identified, investigated and resolved in accordance with established policies and agreements and reported to clients within agreed timescales.
- C.18** Investment property administration activities are monitored for compliance with lease agreements, client service level agreements and applicable governing documents.
- C.19** Regulatory reporting obligations are identified and monitored, and required reports are prepared, reviewed and submitted to relevant regulatory authorities within prescribed timeframes.
- C.20** Property operating income and expenses, including tenant exposures and rental arrears, are monitored on a periodic basis against approved budgets and lease agreements, and significant variances or arrears are investigated, escalated in accordance with established procedures.

Monitoring subservice organisations

- C.21** Appointments of subservice organisations, including those providing investment property administration services, are subject to appropriate due diligence and approval prior to commencement of any investment property administration activity.
- C.22** Outsourced activities provided by subservice organisations are governed by authorised contracts and service level agreements that define the services to be provided and the associated performance standards, which are periodically reviewed to ensure they remain appropriate.
- C.23** The services provided by subservice organisations are monitored and assessed against the performance and service standards set out in the service level agreements on an ongoing basis (e.g., reviewing subservice organisation system reports), as well as periodically (e.g., periodic service level meetings with the subservice organisation). Any breaches, service failures or emerging risks are escalated, addressed and remediated in accordance with established issue-management and escalation procedures and reported to the service organisation within agreed timescales.

Reporting to clients

- C.24** Client reporting, in respect of property transactions, holdings, valuations and income are complete and accurate and provided to clients within agreed timescales

Information technology

See control objectives: **G.1 – G.16**

D. Superannuation Member Administration

Definition:

“Superannuation member administration” is the performance of administrative functions relating to the superannuation funds, staff benefit schemes, legacy retirement plans or similar member-based retirement arrangements, including the following:

- 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 them 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 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 the fund, including roll up of members’ accounts, calculation of vested or accrued 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 3 Section E Investment Administration will also be applicable.

Control Objectives:

Accepting clients and account setup

- D.1** New accounts⁹⁹ for superannuation funds and sub-plans are set up completely and accurately in accordance with client agreements and any applicable regulations.
- D.2** Member accounts are set up completely and accurately in accordance with fund rules and individual investment and insurance elections.

⁹⁹ Controls over the transition of individual existing superannuation funds to the superannuation member administrator are not addressed in this objective.

- D.3** Member information and elections provided during account establishment are validated in accordance with fund rules, client requirements and applicable governing documents prior to account activation.

Authorising and processing transactions

- D.4** Contributions and transfers received are correctly classified, validated where applicable, and allocated to members' accounts, and processed completely and accurately within agreed timescales.
- D.5** Unallocated or unidentified contributions are recorded in suspense accounts and investigated and allocated to the appropriate member accounts within agreed timescales.
- D.6** Corrections or reversals of member transactions are authorised and processed in accordance with established procedures and recorded completely and accurately in member accounts.
- D.7** Superannuation benefits, withdrawals and transfer values are calculated and recorded accurately in accordance with fund rules and applicable governing documents and payments are authorised and processed within agreed timescales.
- D.8** Instructions from members and trustees regarding investment elections and investment switch requests are validated and processed accurately in accordance with authorised instructions and fund rules.
- D.9** Deductions from member accounts, including insurance premiums, administration fees and contribution tax, are calculated in accordance with member elections, fund rules, and applicable governing documents and are accurately recorded within agreed timescales.
- D.10** Amounts deducted from member accounts are calculated in accordance with fund rules and applicable governing documents, authorised and remitted to the appropriate parties within agreed timescales.
- D.11** Insurance claims relating to member benefits are processed in accordance with fund rules and insurance policy terms and claim proceeds are recorded completely and accurately in member accounts.

Maintaining member records

- D.12** Changes to static members data (for example, address changes, bank account changes and changes in allocation instructions) are supported by appropriate records, authorised and recorded completely and accurately on a timely basis.
- D.13** Investment earnings are accurately allocated to member account using authorised crediting rates or unit prices in accordance with trustee directions and fund rules.
- D.14** Vested or accrued member benefits, where applicable, are recorded in accordance with actuarial calculations and fund rules and are updated and maintained accurately in member records on a timely basis.

D.15 Member account balances are periodically reconciled to the corresponding fund accounting or registry records, and any differences are investigated and resolved.

Safeguarding assets

D.16 Superannuation fund, sub-plan, member data, account balances and related records are appropriately maintained and accurate, and protected from unauthorised access, alteration or loss.

Monitoring compliance

D.17 Contributions received are monitored in accordance with fund rules and applicable governing documents and any exceptions are investigated and followed up where necessary.

D.18 Transaction errors are identified, investigated and rectified in accordance with established procedures and notified to members or trustees in accordance with client agreements.

D.19 Benefits payable and transfer values are calculated and paid in accordance with superannuation fund rules and applicable governing documents.

Monitoring subservice organisations¹⁰⁰

D.20 Appointments of subservice organisations, including those providing superannuation member administration are subject to appropriate due diligence and approval prior to commencement of any superannuation member administration activity.

D.21 Outsourced activities provided by subservice organisations are governed by authorised contracts and service level agreements that define the services to be provided and associated performance standards, which are periodically reviewed to ensure they remain appropriate.

D.22 The services provided by subservice organisations are monitored and assessed against the performance and service standards set out in the service level agreements on an ongoing basis (e.g., reviewing subservice organisation system reports), as well as periodically (e.g., periodic service level meetings with the subservice organisation). Breaches, service failures or emerging risks are escalated, addressed and remediated in accordance with established issue-management and escalation procedures, and reported to the service organisation within agreed timescales.

Reporting to members

D.23 Regulatory and client reporting obligations relating to member administration are identified and monitored and required reports are prepared and submitted within prescribed timeframes.

D.24 Periodic member statements and reports are prepared completely and accurately and provided within agreed timescales.

¹⁰⁰ Include control objectives for monitoring subservice organisations when the carve-out method is used to deal with subservice organisations. See ASAE 3402, paragraph 9(a) for definition of carve-out method.

Information technology

See control objectives: **G.1 – G.16**

DRAFT

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).
- Managing the member equity interests in a unitised fund that as a user entity (i.e. the unit registry and unit pricing for the unitised fund itself)
- Periodic financial reporting.

While this section E deals with ‘investment administration’, it also applies to external administration of the unit registry and unit pricing for member equity interests in a unitised scheme as a user entity. 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. Control objectives relevant to unit pricing, distributions and credit rate calculations have not been listed below, because it would not ordinarily be necessary to meet these objectives in obtaining assurance over the operating effectiveness of controls for investment administration services provided by a service organisation for the purpose of the audit of user entities’ financial reports.

Control Objectives:

Accepting clients and account setup

- E.1** New client investment administration agreements and subsequent amendments, including investment guidelines and restrictions, are authorised prior to commencement of investment administration services.
- E.2** Client mandates, investment restrictions and administration service parameters are established in accordance with documented policies.
- E.3** Client details, accounts, investment guidelines and restrictions are completely and accurately set up in relevant systems prior to initiating investment administration activities.
- E.4** Authorised signatories, standing settlement instructions and payment authorisation protocols (including dual approval requirements) are established prior to processing investment administration transactions and subsequently maintained, periodically reviewed and updated.
- E.5** Opening balances for client onboarding, including in specie transfers, are completely and accurately recorded in line with client instructions.

Authorising and processing transactions

- E.6** Proposed investment transactions are assessed for compliance with client investment guidelines and restrictions prior to execution.
- E.7** Investment transactions are authorised, executed and allocated completely and accurately within agreed timescales.

- E.8** Corporate actions are processed and recorded completely, accurately and within required timescales.
- E.9** Voluntary corporate actions are authorised and processed in accordance with client instructions and investment mandates.
- E.10** Client applications/subscriptions and withdrawals/redemptions are identified, authorised where required, processed and recorded completely and accurately within agreed timescales.

Maintaining financial and other records

- E.11** Accounts are maintained and administered in accordance with client agreements, and applicable governing documents.
- E.12** Changes to static client data (for example, address changes and changes in allocation instructions) and relevant security master data are authorised and recorded completely and accurately.
- E.13** Investment income and related tax reclaims are completely and accurately recorded in the proper period.
- E.14** Issue and cancellations of shares/units are recorded completely and accurately in the financial records and units on issue are regularly reconciled to data provided by registry.
- E.15** Cash and investment positions are completely and accurately recorded and reconciled to third party data within agreed timescales.
- E.16** Expenses are authorised and recorded in accordance with the service level agreement and/or client instructions within agreed timescales.

Monitoring compliance

- E.17** Errors are identified, notified to clients and rectified promptly in accordance with client agreements.

Valuation governance and methodology

- E.18** Valuation methodologies applied to investments are approved, documented and consistently applied in accordance with the applicable financial reporting framework.
- E.19** Investments with observable prices are accurately valued using prices obtained from authorised independent pricing sources.
- E.20** Investments without independently available observable prices or prices where only a single pricing source is available are valued according to approved pricing policies and, where necessary, using approved pricing models, assumptions and inputs.

Monitoring subservice organisations¹⁰¹

- E.21** Appointments of subservice organisations, including those providing investment administration are subject to appropriate due diligence and approval prior to commencement of any investment administration activity.

¹⁰¹ Include control objectives for monitoring subservice organisations when the carve-out method is used to deal with subservice organisations. See ASAE 3402, paragraph 9(a) for definition of carve-out method.

- E.22** Outsourced activities provided by subservice organisations are governed by authorised contracts and service level agreements that define the services to be provided and associated performance standards, which are periodically reviewed to ensure they remain appropriate.
- E.23** The services provided by subservice organisations are monitored and assessed against the performance and service standards set out in the service level agreements on an ongoing basis (e.g., reviewing subservice organisation system reports), as well as periodically (e.g., periodic service level meetings with the subservice organisation). Any breaches, service failures or emerging risks are escalated, addressed and remediated in accordance with established issue-management and escalation procedures and reported to the service organisation within agreed timescales.

Reporting to clients

- E.24** Periodic client reports, including calculation of net asset value if required, are prepared completely and accurately and provided within agreed timescales.
- E.25** Annual reports, financial statements and other required regulatory reports are prepared completely and accurately and submitted in accordance with applicable laws and regulations.

Taxation

- E.26** Tax policy is updated and reviewed on a timely basis.
- E.27** Tax information components and attributes used in the preparation of the income tax computation (current and deferred) are complete and calculated accurately in accordance with tax policy or as agreed with clients.
- E.28** Differences between tax and accounting treatments are identified and calculated in accordance with tax policy or as agreed with clients and reported in a timely manner to clients.
- E.29** Current and deferred tax balances in the general ledger are accurately recorded in accordance with the tax computation, and processed in a timely manner in accordance with tax policy or as agreed with clients.

Information technology

See control objectives: **G.1 – G.16**

F. Registry

Definition:

“Registry” is the performance of the following functions:

- Maintaining records of the name and address of each shareholder or unitholder investing in the client/issuer, the amount of shares or units in the client 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 and account setup

- F.1** New client accounts¹⁰² are set up completely and accurately in accordance with client/issuers agreements.
- F.2** Complete and authorised client agreements are established prior to initiating registry activity.

Authorising and processing transactions

- F.3** New share/unitholder activity is established and recorded completely and accurately within agreed timescales.
- F.4** Share/unitholder applications/subscriptions, withdrawals/redemptions and switches received are validated against authorised instructions and supporting documentation and distributed for processing within agreed timescales.
- F.5** Share/unitholder transactions and adjustments are authorised, processed accurately and completely within agreed timescales.
- F.6** Cash receipts are processed, recorded and deposited to the appropriate bank accounts completely and accurately within agreed timescales and reconciled to registry records where applicable
- F.7** Payments to share/unitholders and related confirmation notices are generated completely and accurately, and are matched and authorised prior to despatch or electronic release.

¹⁰² Controls over the transition of specific user entities’ registry to the management of the service organisation are not addressed in this objective.

- F.8** Where issued capital is fixed or limited, registry records ensure that shares or units issued do not exceed authorised limits and that units on issue reconcile to user records.
- F.9** Distribution payments and reinvestments are complete, calculated in accordance with the authorised distribution and processed within agreed timescales.

Maintaining financial and other records

- F.10** Share/unitholders accounts and related records are maintained and administered in accordance with client agreements, and applicable governing documents.
- F.11** Changes to static share/unitholder data (for example, address changes, bank account changes and changes in allocation instructions) and relevant securities master data are authorised and recorded completely and accurately within agreed timescales.
- F.12** Registrar records accurately reflect shares and units held by investors and are regularly reconciled to issuer or fund records and relevant third parties with differences investigated and resolved where necessary.
- F.13** Share/unit activity is recorded completely, accurately and registry balances are regularly reconciled to fund accounting or issuer records, with differences investigated and resolved where necessary.

Safeguarding assets

- F.14** Lost and stolen certificates are recorded within agreed timescales and appropriate controls are applied to prevent unauthorised transfer, cancellation or replacement in accordance with established procedures.

Monitoring compliance

- F.15** Transaction errors are identified, notified to clients and share/unit holders in accordance with client agreements and rectified if necessary.

Monitoring subservice organisations¹⁰³

- F.16** Appointments of subservice organisations, including those providing registry services are subject to appropriate due diligence and approval prior to commencement of any registry activity.
- F.17** Outsourced activities provided by subservice organisations are governed by authorised contracts and service level agreements that define the services to be provided and associated performance standards, which are periodically reviewed to ensure they remain appropriate.
- F.18** The services provided by subservice organisations are monitored and assessed against the performance and service standards set out in the service level agreements on an ongoing basis (e.g., reviewing subservice organisation system reports), as well as periodically (e.g., periodic service level meetings with the subservice organisation). Any breaches, service failures or emerging risks are escalated, addressed and remediated in accordance with established issue-management and escalation procedures and reported to the service organisation within agreed timescales.

¹⁰³ Include control objectives for monitoring subservice organisations when the carve-out method is used to deal with subservice organisations. See ASAE 3402, paragraph 9(a) for definition of carve-out method.

Reporting to clients

F.19 Client reporting is prepared completely and accurately and provided within required timescales.

Taxation

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

See control objectives: **G.1 – G.16**

DRAFT

G. Information Technology

Scope:

The service auditor applies professional judgement to determine when the information technology (IT) control objectives are applicable to an investment management service and should therefore be tested in addition to the control objectives that relate to the specific type of investment management service, as described in sections A-F of this Appendix.

The service auditor's professional judgement is based on:

- the understanding obtained of the risks arising from the service organisation's use of IT (including IT applications¹⁰⁴ and supporting IT infrastructure¹⁰⁵, as well as IT processes¹⁰⁶ and personnel involved in those processes), and the general IT controls implemented to address those risks, and
- the extent to which the achievement of an investment management service control objective, that is being tested, relies on those general IT controls (i.e., can the control objective be met without the general IT controls that are in place).

Examples of risks arising from the use of IT include risks related to inappropriate reliance on IT applications that are inaccurately processing client financial data, processing inaccurate client financial data, or both, such as:

- Unauthorised access to client financial data that may result in destruction of, or improper changes to such data, including the recording of unauthorised or non-existent transactions, or inaccurate recording of transactions.
- The possibility of IT personnel gaining access privileges beyond those necessary to perform their assigned duties thereby breaking down segregation of duties.
- Unauthorised changes to IT applications or other aspects of the IT environment.
- Failure to make necessary changes to IT applications or other aspects of the IT environment.
- Inappropriate manual intervention.
- Potential loss of client financial data or inability to access such data as required.

The service auditor's consideration of unauthorised access may include risks related to unauthorised access by internal or external parties. However, the service auditor is not performing a cybersecurity assessment. The service auditor obtains an understanding of how the service organisation is dealing with cybersecurity risks (as part of operational risks) and evaluates whether such risks have the potential to materially affect financial reporting. If so, the service auditor would evaluate the entity-level controls to prevent cybersecurity incidents or detect incidents when they occur.

Control Objectives:

Restricting access to systems and client financial data

- G.1** Physical access to the data centre(s) hosting the in-scope systems is restricted to authorised individuals.

¹⁰⁴ An IT application is a program or a set of programs that is used in the initiation, processing, recording and reporting of transactions or information. IT applications include data warehouses and report writers.

¹⁰⁵ The IT infrastructure comprises the network, operating systems, and databases and their related hardware and software.

¹⁰⁶ The IT processes are the entity's processes to manage access to the IT environment, manage program changes or changes to the IT environment and manage IT operations.

- G.2** Logical access (including administrative / privileged access) to in-scope systems and client financial data is restricted to authorised individuals only, through uniquely identifiable user credentials and appropriate authentication mechanisms, based on approved user roles and responsibilities, and is monitored and periodically reviewed for ongoing appropriateness, with access promptly modified or removed when personnel change roles or cease employment.
- G.3** IT logs and system activity data for in-scope systems are generated and retained in accordance with defined requirements, and are monitored and periodically reviewed to detect, identify, and investigate unusual or unauthorised activity.

Maintaining integrity of the systems

- G.4** Transmission and processing of client financial data is complete, accurate, secure and within agreed timescales.
- G.5** The physical IT equipment is maintained in a controlled environment (Refer to Monitoring subservice organisations section below, where IT equipment is maintained by a third-party provider).

Maintaining and developing systems hardware and software

- G.6** Development and implementation of both in-house and third-party in-scope systems, and changes to existing in-scope systems (including hardware upgrades, software patches and direct configuration changes) are authorised, tested, and approved in line with policy.
- G.7** Client financial data migration or modification is authorised, tested and, once performed, reconciled back to the source data.

Recovering from processing interruptions

- G.8** Business continuity and IT related Disaster Recovery Plans are documented, updated, approved and tested periodically and testing outcomes are tracked to close.
- G.9** In-scope systems and client financial data are backed up periodically, segregated from production, and tested such that they can be restored completely and within agreed timescales.
- G.10** Incidents relating to in-scope systems and client financial data are identified and resolved and notified (where applicable) within agreed timescales.

Monitoring compliance

- G.11** IT services provided to clients are approved, managed and performance thresholds met in accordance with the requirements of the client agreement.
- G.12** Cybersecurity incidents that affect, or have the potential to affect, the integrity, availability or accuracy of client financial data within in-scope systems are detected, escalated, investigated and remediated within agreed timescales, and regulatory reporting obligations arising from the incident are fulfilled.

Monitoring subservice organisations¹⁰⁷

- G.13** Appointment of subservice organisations, including those providing IT services, are subject to appropriate due diligence and approval prior to commencement of any IT related activity.

¹⁰⁷ Include control objectives for monitoring subservice organisations when the carve-out method is used to deal with subservice organisations. See ASAE 3402, paragraph 9(a) for definition of carve-out method.

- G.14** Outsourced activities provided by subservice organisations are governed by authorised contracts and service level agreements that define the services to be provided and associated performance standards, which are periodically reviewed to ensure they remain appropriate.
- G.15** The services provided by subservice organisations are monitored and assessed against the performance and service standards set out in the service level agreements on an ongoing basis (e.g., reviewing subservice organisation system reports), as well as periodically (e.g., periodic service level meetings with the subservice organisation). Any breaches, service failures or emerging risks are escalated, addressed and remediated in accordance with established issue-management and escalation procedures and reported to the service organisation within agreed timescales.

Illustrative supplementary control objectives:

Recovering from processing interruptions

- G.16** Performance and capacity of in-scope systems are forecasted and monitored and issues are resolved.

Appendix 4

(Ref: Para. 69)

SERVICE AUDITOR'S TYPE 2 ASSURANCE REPORT

Independent Service Auditor's Assurance Report on the Description of Controls over [Investment Management Service], their Design and Operating Effectiveness

To: XYZ Service Organisation

Scope

We have been engaged to report on XYZ Service Organisation's (XYZ) description at pages [bb-cc] of its [specify investment management service: custody, asset management, property management, superannuation member administration, investment administration or registry] system provided to XYZ's clients throughout the period [date] to [date] (the description), and on the design and operations of those controls related to the control objectives stated in the description.¹⁰⁸

XYZ's Responsibilities

XYZ is responsible for: preparing the description and accompanying assertion at page [aa], including the completeness, accuracy and method of presentation of the description and assertion; providing the [investment management service/s] covered by the description; stating the control objectives, including relevant controls objectives for [investment management service/s] as outlined in AUASB Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*, and designing, implementing and effectively operating controls to achieve the stated control objectives.

Service Auditor's Responsibilities

Our responsibility is to express an opinion on XYZ's description and on the design and operation of controls related to the control objectives stated in that description based on our procedures. We conducted our engagement in accordance with Standard on Assurance Engagements ASAE 3402 *Assurance Reports on Controls at a Service Organisation* and with reference to Guidance Statement GS 007 *Audit Implications of the Use of Service Organisations for Investment Management Services*. ASAE 3402 requires that we comply with relevant ethical requirements and plan and perform our procedures to obtain reasonable assurance about whether, in all material respects, the description is fairly presented and the controls are suitably designed and operating effectively.

An assurance engagement to report on the description, design and operating effectiveness of controls at a service organisation involves performing procedures to obtain evidence about the disclosures in the service organisation's description of its system, and the design and operating effectiveness of controls. The procedures selected depend on our judgement, including the assessment of the risks that the description is not fairly presented, and that controls are not suitably designed or operating effectively. Our procedures included testing the operating effectiveness of those controls that we consider necessary to provide reasonable assurance that the control objectives stated in the description were achieved. An assurance engagement of this type also includes evaluating the overall presentation of the description, the suitability of the objectives stated therein, and the suitability of the criteria specified by the service organisation and described at page [aa]. In evaluating the suitability of the objectives stated in the description, we have determined whether each of the minimum control objectives provided in GS 007 for [investment management service/s] is included, or, if any of the minimum objectives are omitted or amended, that the reason for the omission or amendment is adequately disclosed in the description.

¹⁰⁸ If some elements of the description are not included in the scope of the engagement, this is made clear in the assurance report.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Limitations of Controls at a Service Organisation

XYZ's description is prepared to meet the common needs of a broad range of clients and their auditors and may not, therefore, include every aspect of the system that each individual client may consider important in its own particular environment. Also, because of their nature, controls at a service organisation may not prevent or detect all errors or omissions in processing or reporting transactions. Also, the projection of any evaluation of effectiveness to future periods is subject to the risk that controls at a service organisation may become inadequate or fail.

Opinion

Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion are those described at page [aa]. In our opinion, in all material respects:

- (a) the description fairly presents the [investment management service] system as designed and implemented throughout the period from [date] to [date];
- (b) the controls related to the control objectives stated in the description were suitably designed throughout the period from [date] to [date]; and
- (c) the controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period from [date] to [date].

Description of Tests of Controls

The specific controls tested and the nature, timing and results of those tests are listed on pages [yy-zz].

[Other information]

The information included in [pages/section] describing the service organisation's [identify aspects not covered by the assurance report] is presented by the service organisation to provide additional information and is not part of the service organisation's description of control activities that may be relevant to user entities' internal control. Our opinion does not cover this information, and we do not express any form of opinion thereon. However, we read the information and, in doing so, consider whether the information is materially inconsistent with the description or our knowledge obtained in the audit, or otherwise appears to be materially misstated.]

Intended Users and Purpose

This report and the description of tests of controls on pages [yy-zz] are intended only for clients who have used XYZ's [investment management service] system, and their auditors, who have a sufficient understanding to consider it, along with other information including information about controls operated by clients themselves, when assessing the risks of material misstatements of clients' financial reports/statements.

[Service auditor's signature]

[Date of the service auditor's assurance report]

[Service auditor's address]

TYPES OF OPINIONS

Unmodified service auditor's opinion:

No exceptions

The service auditor issues a service auditor's report with an unmodified opinion where sufficient appropriate audit evidence has been obtained to reasonably conclude, in all material respects, on the fairness of service organisation's description of the control activities, the suitability of the design, implementation and operating effectiveness of the control activities.

Not material exceptions

Where exceptions relating to the tests of operating effectiveness of control activities are identified, an unqualified opinion may still be issued by the service auditor where such exceptions fall within acceptable parameters determined by the service auditor. I.e., the exceptions are, individually and in aggregate, neither material to the achievement of the control objective nor pervasive to the service organisation or the control activities being performed.

In such circumstances, the service auditor describes the nature and extent of the exceptions in the appendix to the service auditor's report as part of the results of the testing performed.

Not-applicable control objective

Where the service auditor is unable to opine on a control objective, or part thereof, because one or more related control activities were not required to operate during the reporting period (i.e., an event-driven control activity, for example, data migrations and new client take-on), the service auditor explains that the control objective is not applicable in the appendix to the service auditor's report as part of the results of the testing performed.

Depending on the circumstances, the service auditor may consider it appropriate to include additional communication in the assurance report, which draws the user auditor's attention to fact that the control objective was not applicable during the reporting period. As required by ASAE 3000 (Revised)¹⁰⁹, such a paragraph is clearly separated from the service auditor's opinion and written in such a way that the paragraph does not detract from that opinion.

Where a control objective is not-applicable, management and those charged with governance also add a corresponding explanatory paragraph in the written representation. In such circumstances, the service auditor makes appropriate enquiries to satisfy itself that the control activities did not operate during the reporting period.

Qualified service auditor's opinion:

Material exceptions

The service auditor issues a service auditor's report with a qualified opinion when either:

- The service auditor is unable to obtain sufficient evidence to conclude, in all material respects, on the matters within the scope of the engagement i.e., fairness of presentation, suitability of design and operating effectiveness of the control activities; or

¹⁰⁹ ASAE 3000 (Revised) paragraph 68 on Emphasis of Matter (EoM) and Other Matter (OM) paragraphs. The service auditor may also find ASA 706 (Revised) useful as it provides detailed requirements and guidance to an auditor of an entity's financial statements on deciding whether it is appropriate to include an EoM or OM paragraph, the location of such a paragraph in the auditor's report and standard phrases to use.

- The service auditor, based on the evidence obtained, concludes that, in all material respects, the matters within the scope of the engagement i.e., fairness of presentation, suitability of design and operating effectiveness of the control activities are not in accordance with the relevant control objectives (or criteria).

The following circumstances may therefore give rise to a qualified service auditor's report:

- Where there are omissions or errors in respect of the control objectives;
- Where there are material exceptions in relation to the fair presentation of control activities;
- Where there are material exceptions in relation to the design suitability of control activities; and
- Where material exceptions are identified in relation to the operating effectiveness of control activities. For example, where a control objective is not met but does not impact on the achievement of other control objectives which may be considered to have a pervasive effect.

Adverse service auditor's opinion

Material and Pervasive exceptions

Where the service auditor, having obtained sufficient and appropriate evidence, concludes that misstatements, omissions or exceptions (whether individually or in aggregate) are both material and pervasive to the control objectives as a whole, the service auditor issues a service auditor's report with an adverse opinion.

Exceptions may be considered pervasive where the ineffective design or operation of the impacted control activities and control objectives causes the overall system of control to not operate effectively. For example, where the exceptions result in a control objective that underpins the achievement of one or more other control objectives not being met.

Service auditor's disclaimer of opinion

Material and Pervasive exceptions

The service auditor disclaims an opinion when they are unable to obtain sufficient appropriate audit evidence on which to base an opinion and the service auditor concludes that the possible effects of the undetected misstatements on the matters within the scope of the engagement, could be both material and pervasive.

Appendix 6

(Ref: Para. 99)

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. The service organisation’s control objectives.
2. The service organisation’s control activities to meet each control objective.
3. Assessment of the fair presentation of the description, 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, as designed and implemented.
4. Assessment of the suitability of the design, including identification of any inadequacies in the design of the controls to achieve their stated objectives.
5. The tests performed for each control activity, including the procedures performed to determine the completeness and accuracy of the population from which items were selected for testing.
6. The results of each of those tests on a control activity by control activity basis, including the inability to test a control activity.
7. The conclusions reached by the service auditor.

The diagram below illustrates an example tabular layout to present this information alongside the description prepared by management and indicates the ownership for each of these inputs. Management’s response to exceptions have been included as a separate column in this example for illustrative purposes only and to indicate one option of how the service auditor could make it clear that the information is unaudited. The information may also be presented in a separate section to the type 2 report. This illustration does not include details of the process description that provides context for the operation of the Control Activities.

Control Objective #3.5	Cash and investment positions are completely and accurately recorded		
Control Activity	Description of test procedures performed	Result of testing and conclusion reached	Management’s response to exceptions identified (unaudited information)
3.5.1 On a daily basis, cash records per the administration system are reconciled to custodian bank records using an automated reconciliation system. Teams resolve the exceptions and annotate the exceptions report with explanations and/or actions taken to resolve each item.	For a selection of days, obtained electronic copies of the exceptions report from the reconciliation system and inspected the annotations made by the operations team of explanations for, and/or actions taken to resolve, each item. For a selection of exceptions, inspected evidence of supporting documentation being retained for actions taken.	No exceptions noted.	Not applicable

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

Control Objective #3.5	Cash and investment positions are completely and accurately recorded		
Control Activity	Description of test procedures performed	Result of testing and conclusion reached	Management's response to exceptions identified (unaudited information)
Reconciling items are reported on an exceptions report.			
3.5.2 On a daily basis, the client administration manager reviews the reconciliation exceptions report for evidence that all exceptions have been explained and/or resolved. This review is evidenced by electronic sign off on the exceptions report, copies of which are archived in the reconciliation system.	For a selection of days, obtained electronic copies of the exceptions report from the reconciliation system and inspected the electronic signature of the client administration manager as evidence of review.	Exception noted: For one out of a selection of 30 days, there was no evidence of sign off by the client administration manager on the electronic copy of the reconciliation exceptions report. No other exceptions noted.	[We acknowledge the exception...]
Control Objective 4.1	New accounts are set up completely and accurately in accordance with client agreements and any applicable regulations		
4.1.1 [insert control activity]	We did not perform any procedures over the control activities as there were no new clients during the period [insert dates].	Not applicable	Not applicable

■ Service organisation responsibility for completion

■ Service auditor responsibility for completion

The paragraphs that follow, outlines further information on the service auditor's description of the nature of the tests performed.

Nature

In describing the nature of tests carried out, it is desirable for the service auditor to define what is meant by such procedures as enquiry, inspection, observation and re-performance. Illustrative definitions, which may assist the service auditor in this regard are set out below.

Enquiry

Enquired of [XYZ] personnel. Enquiries seeking relevant information or representation from personnel were performed to obtain, among other things:

- Knowledge, additional information and affirmation regarding the control activities.
- Corroborating evidence of the control activities.

Observation

Observed the application or existence of specific control activities as represented.

Inspection

Inspected documents and records indicating performance of the control activities. 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 monitored, controlled and resolved on a timely basis, as required by the related control activity.

- Examination of source documentation and authorisations related to selected transactions processed.
- Examination of documents or records for evidence of performance, such as the existence of initials or signatures.
- Inspection of systems documentation, such as operations manuals, flow charts, and job descriptions.

Re-performance:

Re-performed the control activity or processing application of the control activities 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.

EXAMPLES OF SERVICE AUDITOR'S REPORTS ON FINANCIAL INFORMATION

The following example service auditor's reports are for use as a guide only, in conjunction with the considerations described in this Guidance Statement, and will need to be varied according to individual requirements and circumstances.

Example 1: A service auditor's report to the engaging party on the audit of specified assertions of the user entity's assets, liabilities or transactions in a financial statement prepared by a service organisation.

Example 2: A service auditor's report to the engaging party on the audit of a financial statement of the user entity's assets, liabilities or transactions prepared by a service organisation.

Example 1: Service Auditor's Report on Specified Assertions

Independent Auditor's Report

To [the engaging party]¹¹⁰

Report on Specified Assertions of Assets [and liabilities or transactions] in the Statement¹¹¹

We have audited the [specify assertions audited]¹¹² of the assets [and liabilities or transactions] of the accompanying [title of financial statement] ("the Statement"), which comprises the [statement of assets and liabilities] as at [date], and the [statement of transactions] for the year then ended, concerning the assets [and liabilities or transactions] of [user entity]¹¹³ for which XYZ Service Organisation (XYZ) provides [specify investment management service provided: custody, asset management, property management, superannuation member administration, investment administration or registry] services, set out on pages [bb] to [cc].¹¹⁴ The Statement has been prepared by management of XYZ using the basis of preparation described in Note X.

XYZ Management's Responsibility for the Statement

XYZ is responsible for [investment management service] on behalf of [user entity]. Management of XYZ is responsible for the preparation and fair presentation of the Statement in accordance with [specify framework applied]¹¹⁵ and has 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]. Management is also responsible for such internal control as management determines is necessary to enable the preparation of the Statement that is free from material misstatement, whether due to fraud or error.

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

¹¹⁰ Insert name of user entity or the name of the engaging party, if other than the user entity.

¹¹¹ The subheading "Report on the Statement" is unnecessary in circumstances when the second subheading "Report on Other Legal and Regulatory Requirements" is not applicable.

¹¹² Insert specified 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.

¹¹³ Where the assets are held in the name of a nominee holding company insert "held in the name of [nominee holding company]".

¹¹⁴ 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.

¹¹⁵ 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".

audit in accordance with Australian Auditing Standards. Those Standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the assets [and liabilities or transactions] set out in the Statement are free of material misstatement in respect of the specified audit assertions.

An audit of the [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]”]. The procedures selected depend on the auditor’s judgement, including the assessment of the risks of material misstatement of the Statement in relation to the specified assertions, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the [specify assertions audited] of the assets [and liabilities or transactions] in 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 XYZ’s internal control.¹¹⁶ An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management of XYZ with respect to the [specified assertions] of the assets [and liabilities or transactions].

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

[Insert either:

No uncorrected misstatements, other than amounts which are clearly trivial, have been identified during the course of our audit; or

Uncorrected misstatements, other than amounts which are clearly trivial, which, have come to our attention during the course of our audit and are not material individually or in aggregate in relation to the [specify assertions audited] in respect of the assets [and liabilities or transactions] in the accompanying Statement but may be material when aggregated with any uncorrected misstatements identified by [user entity]’s auditor, are listed in an attachment to this report. These uncorrected misstatements do not affect our audit opinion.]

Opinion

In our opinion, the Statement presents fairly, in all material respects, the [specify assertions audited] of the assets [and liabilities or transactions] of [user entity], for which XYZ provides [investment management service] services, as of [date] in accordance with [specify framework].

Basis of Accounting and Restriction on Distribution

Without modifying our opinion, we draw attention to Note X to the Statement, which describes the basis of accounting. The Statement has been prepared by XYZ for distribution to the [the Trustee/those charged with governance] of [user entity]. As a result, the Statement may not be suitable for another purpose. Our report is intended solely for XYZ, [user entity] and their auditor and should not be distributed to any other parties or used for any other purpose other than that for which they are prepared.¹¹⁷

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].

¹¹⁶ 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 specified assertions of the assets [and liabilities or transactions] in the Statement, this sentence would be worded as follows: “In making those risk assessments, the auditor considers internal control relevant to the [specify assertions audited] of the assets [and liabilities or transactions] in the Statement in order to design audit procedures that are appropriate in the circumstances.”

¹¹⁷ Use of the report and 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.

[Auditor’s signature]

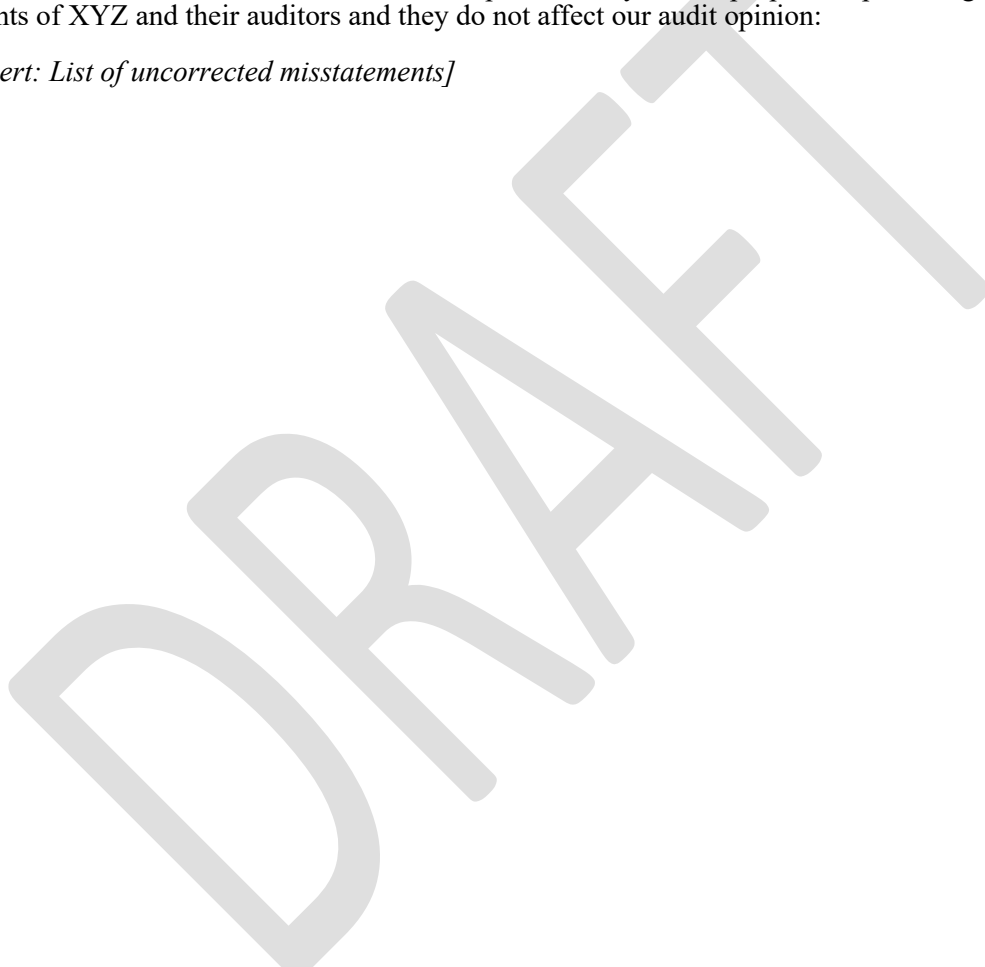
[Date of the auditor’s report]

[Auditor’s address]

[Attachment: Uncorrected Misstatements]¹¹⁸

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

[Insert: List of uncorrected misstatements]



¹¹⁸ Include attachment where uncorrected misstatements were identified.

Example 2: Service Auditor's Report on a Statement

INDEPENDENT AUDITOR'S REPORT

To [the engaging party]¹¹⁹

Report on the Statement¹²⁰

We have audited the accompanying [title of financial statement] ("the Statement"),¹²¹ 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]¹²² for which XYZ Service Organisation (XYZ) provides [specify investment management services provided: custody, asset management, property management, superannuation member administration, investment administration or registry] services set out on pages [bb] to [cc].¹²³ The Statement has been prepared by management of XYZ on the basis of preparation described in Note X.

Management's¹²⁴ Responsibility for the Statement

XYZ is responsible for [investment management service] on behalf of [user entity]. Management of XYZ is responsible for the preparation and fair presentation of the Statement in accordance with [specify framework]¹²⁵ and has 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]. Management is also responsible for such internal control as management determines is necessary to enable the preparation of the Statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the Statement based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those Standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the Statement is free from material misstatement.

An audit of the Statement involves performing procedures to obtain audit evidence about the amounts and disclosures in the Statement. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the Statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to XYZ'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 XYZ's internal control¹²⁶. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates, if any, made by management, as well as evaluating the overall presentation of the Statement.

We believe that the audit evidence we obtained is sufficient and appropriate to provide a basis for our audit opinion.

[Insert either:

¹¹⁹ Insert name of user entity or the name of the engaging party, if it is not the user entity.

¹²⁰ The subheading "Report on the Statement" is unnecessary in circumstances when the second subheading "Report on Other Legal and Regulatory Requirements" is not applicable.

¹²¹ If certain assertions are specifically excluded from the audit then insert: "except for [specify assertions excluded, e.g. presentation and disclosure] of the Statement."

¹²² Where the assets are held in the name of a nominee holding company insert "held in the name of [nominee holding company]."

¹²³ 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.

¹²⁴ 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.

¹²⁵ 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").

¹²⁶ In circumstances when the auditor also has responsibility to express an opinion on the effectiveness of internal control in conjunction with the audit of the Statement, this sentence would be worded as follows: "In making those risk assessments, the auditor considers internal control relevant to XYZ's preparation and fair presentation of the Statement in order to design audit procedures that are appropriate in the circumstances."

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.]

Opinion

In our opinion, the attached Statement presents fairly, in all material respects, the assets [and liabilities] of [user entity] as of [date] and transactions for the [period] then ended, for which XYZ provides [investment management service] services, in accordance with the basis of accounting described in Note X.

Basis of Accounting and Restriction on Distribution

Without modifying our opinion, we draw attention to Note X to the Statement, which describes the basis of accounting. The Statement has been prepared by XYZ for distribution to the [the Trustee/those charged with governance] of [user entity]. As a result, the Statement may not be suitable for another purpose. Our report is intended solely for XYZ, [user entity] and their auditor and should not be distributed to any other parties or used for any other purpose other than that for which they are prepared.¹²⁷

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]

[Attachment: Uncorrected Misstatements]¹²⁸

In the course of conducting our audit procedures at XYZ Service Organisation for the purpose of reporting on [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 XYZ and their auditors and they do not affect our audit opinion:

[Insert: List of uncorrected misstatements]

¹²⁷ Use of the report and 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.

¹²⁸ Include attachment where uncorrected misstatements were identified.

Summary of changes made in draft revised GS 007

Planned topic area		Description of changes
No.	Subservice organisations (SSOs)	
1	<p>Where the carve-out method is applied, some principles-based guidance is needed:</p> <ul style="list-style-type: none"> - Risk assessment procedures including reasons for applying the method. - Testing the service organisation’s monitoring controls over controls at the SSO. - Adequacy of reporting in the type 2 report on the SSO’s control objectives and control activities. 	<p>We incorporated guidance for the user auditor and the service auditor.</p> <p>We described when a specialist organisation, performing activities on behalf of a service organisation, would be regarded as a ‘subservice organisation’ or a ‘supplier’. [GS 007 para. 26]</p> <p>We highlighted to the user auditor that if the service organisation makes use of a subservice organisation, the user auditor’s understanding of the services and controls at the service organisation includes an understanding of the services and controls at the subservice organisation. The user auditor has been referred to the service auditor’s work, as described in the guide, as the likely source for obtaining this understanding. [GS 007 para. 27]</p>
2	<p>Consider user auditor guidance on how to obtain sufficient appropriate audit evidence on controls at the SSO when the carve-out method is applicable and limited access is available to the SSO, for example, when there is no contractual relationship between the user entity and the SSO.</p> <p>Also consider more guidance on the auditor’s reliance on user entity monitoring controls – how much assurance do these controls provide?</p>	<p>We described to the user auditor that the service organisation may apply the inclusive method or the carve-out method in the description of its system of internal control (where subservice organisations are applicable). We highlighted to the user auditor that the service organisation remains responsible for the control activities related to the outsourced service regardless of the method applied and monitors the effective operation of controls over activities carried out on its behalf. [GS 007 para. 28-29]</p> <p>We described how the user auditor may obtain audit evidence of the operating effectiveness of controls at the subservice organisation. [GS 007 para. 30-32].</p> <p>Based on feedback received we have now included a new section for “User-entity monitoring controls” which now clarifies that user-entity monitoring controls can support oversight and provide supplementary (bridging) evidence, but do not replace a Type 2 report and/or procedures at the service organisation (ASA 402/ASA 330), and are unlikely to be sufficient on their own where inherent risk is significant. [GS 007 para 52-54].</p> <p>We included sources of information to inform the service auditor’s understanding of the activities performed by the subservice organisation. We highlighted that this</p>

Planned topic area		Description of changes
		<p>understanding includes the service organisation’s monitoring controls over subservice organisations. [GS 007 para. 90-91]</p> <p>We described that the service auditor’s work to determine the fair presentation of the service organisation’s description includes the description of the services performed by a subservice organisation and if the carve-out method has been applied, the reasons for applying the method and the adequacy of those reasons. [GS 007 para. 95]</p> <p>We included the types of monitoring controls that the service auditor could test when subservice organisations are applicable. The fact that professional judgement is required to determine which controls (or combination thereof) are important for a particular engagement has been highlighted. [GS 007 para. 113-114].</p>
No.	Gap periods	
3	<p>Clarity is needed on the nature and extent of additional audit procedures when the time periods of the service organisation’s type 2 report differs from the user entity’s financial statements. A risk lens should be applied to the guidance based on the:</p> <ul style="list-style-type: none"> - duration of the gap period; - nature of the control and system changes; and - criticality of the service provider to the subject matter. <p>Regulatory requirements / expectations of the FMA and ASIC should be considered.</p>	<p>We incorporated guidance for the user auditor</p> <p>We described the process that the user auditor follows to determine whether the type 2 report provides sufficient appropriate audit evidence, if the period covered in the type 2 report does not align with the financial reporting period of the user entity. The information includes:</p> <ul style="list-style-type: none"> - How the user auditor determines whether changes to control activities have occurred in the gap period. [GS 007 para. 35-38] - That the user auditor obtains confirmation from the service organisation whether there are any changes to control activities. [GS 007 para. 39] - The user auditor’s work effort when the gap period is up to 3 / 6 / 9 months, and when changes have been identified. [GS 007 para. 40-43] - The user auditor’s options when sufficient evidence cannot be obtained from the operating effectiveness of controls at the service organisation. [GS 007 para. 44] <p>We highlighted to the service auditor that the guidance may equally apply when the service auditor uses a type 2 report on the services and related controls of a carved-out subservice organisation. [GS 007 para. 115]</p>

Planned topic area		Description of changes
No.	Nature and extent of controls testing (and related considerations)	
4	<p>Clarity is needed on the nature and extent of testing:</p> <ul style="list-style-type: none"> - automated controls or IT dependent manual controls. - the completeness and accuracy of the population when control samples are selected from a population. - the completeness and accuracy of information to be used as audit evidence (particularly information produced by the entity) <p>Further clarity is needed on:</p> <ul style="list-style-type: none"> - in-scope IT systems underpinning reporting (and therefore subject to Appendix 3 Section G: IT controls) - the key reports subject to controls/substantive testing. 	<p>We incorporated guidance for the service auditor and highlighted to the user auditor to be aware of this information.</p> <p>We expanded the existing information related to the service auditor’s understanding of the service organisation, including general IT controls and obtaining evidence that the service organisation’s description is fairly presented. [GS 007 para. 85-89 & 92-94]</p> <p>We expanded the existing information on the nature, timing and extent of testing the operating effectiveness of controls. Under the extent of testing, we:</p> <ul style="list-style-type: none"> - highlighted that the service auditor uses evidence related to the reporting period only (roll-forward procedures therefore does not seem to be permitted) [GS 007 para. 99] - described sampling considerations and included a table of illustrative sample sizes for testing manual controls. The table includes the minimum sample sizes which would increase based on risk and each firm’s methodology. We described the extent of testing automated controls. [GS 007 para. 101-102]
5	<p>Guidance is needed on articulating the work performed by the service auditor and the results of that work, clearly and in sufficient detail. The guidance should include examples.</p>	<p>We described the requirement to test the relevance and reliability of information (including the extent of testing automated controls) to be used as audit evidence. [GS 007 para. 109-112]</p>
6	<p>Consider whether service auditors should provide clarity on the approach to determining sample sizes, provide sample sizes in reports and reference the frequency of testing for each control with the report.</p> <p>Some base line level of sampling might be included within guidance but how sample sizes should be determined is out of scope.</p>	<p>We highlighted in the user auditor and service auditor sections that the service auditor describes the work performed in an appendix to the service auditor’s assurance report and that the description includes work on design and implementation of controls, operating effectiveness of controls, and the fairness of the service organisation’s description. [GS 007 para. 45-47]</p>
7	<p>Extent to which roll forward test procedures are performed over differing period ends, and whether and how this is disclosed in service auditor reports.</p>	<p>We included additional information on describing the service auditor’s work performed and provided illustrative examples in Appendix 5. [GS 007 para. 103, 104, 106-108 & Appendix 5]</p>
8	<p>Use of emphasis of matter and other matter paragraphs in the service auditor’s report when controls exist but were not required to operate within the period (e.g. controls over client acceptance where no new clients were accepted).</p>	<p>We included additional information on exceptions, modified opinions and “not applicable control objectives” and how this is described in the service auditor’s work performed. [GS 007 para. 105, 120, 121 & Appendix [new appendix inserted between Appendices 4 and 5]]</p>
9	<p>Clarify the additional information required to be included in the service auditor’s report regarding findings and qualifications.</p>	<p>The guidance refers to general IT controls and “manual and automated controls” throughout the paragraphs dealing with testing the operating effectiveness of controls as described above. We clarified which IT systems are in scope of the assurance engagement in Appendix 3. [GS 007 para. 103, 104, 106-108 & Appendix 3 Section G introduction before control objectives]</p>

Planned topic area		Description of changes
No.	<i>Expectations on interaction between user auditor and service auditor</i>	
9	<p>Expectations on interaction between the user auditor and the service auditor where the report will be received late in the audit of the user entity. For example:</p> <ul style="list-style-type: none"> - Communication throughout to avoid surprises when final report is received. - Timing of the receipt of the controls report to allow sufficient time for the user entity auditor to use the evidence it contains prior to completion of the user entity's audit. 	<p>Due to the one-to-many relationship between the service auditor and user auditors, we inserted that the user auditor could agree expectations on the timing of receiving the service auditor's assurance report, with the user entity including the early communication of any significant exceptions identified during the assurance engagement. The user entity would in turn communicate expectations to the service organisation. [GS 007 para. 65-66]</p>
No.	<i>Other information in service organisation reports</i>	
10	<p>The guidance may need to describe how the service auditor deals with other information included in the description. For example, it could include controls to address operational resilience (including business continuity plans and cyber-security) or reporting required by regulatory bodies.</p>	<p>A section has been added on "other information" which provides examples relevant to the sector and describes the service auditor's responsibilities. We updated the basic elements of the service auditor's report in this regard as well. [GS 007 para. 116-117, 119(b) and (d) & Appendix 4]</p>
No.	<i>Emerging service providers</i>	
11	<p>The investment management services industry has evolved, with new types of service providers operating beyond traditional custodians and fund administrators. Further consideration is needed to assess whether the guide should introduce a new service category for these emerging providers.</p>	<p>New services have not been covered in the revised GS 007 because:</p> <ul style="list-style-type: none"> (a) They are already covered by the principles in GS 007; (b) They are not common in Australia and New Zealand. <p>Outsourced registry services and non-financial information (e.g. the use of data providers for financed emissions) are outside the scope of GS 007. Separate guidance is being develop for financed emissions and the use of data providers.</p> <p>The draft GS 007 will include statements that:</p> <ul style="list-style-type: none"> (a) online platforms are not explicitly addressed as part of the services relevant to GS 007; and (b) GS 007 could be used when appropriately adapted for controls over non-financial information. [GS 007 para. 17-18] <p>AI and digital assets are more general topics that are not specific to service organisations and would be best addressed in separate guidance.</p>
No.	<i>Other areas</i>	
12	<p>Appendix 3 of the guidance contains outdated control objectives.</p>	<p>Control objectives updated.</p>



AUASB Agenda Paper

Title:	Revised Australian-specific Standards on Review Engagements – Project Plan	Date:	1 June 2026
Office of the AUASB:	See Wen Ewe	Agenda Item:	4.0

Objective of this Agenda Paper

1. The objective of this Agenda Paper is to seek approval of a draft Project Plan for revising [ASRE 2405 Review of Historical Financial Information Other than a Financial Report](#) and [ASRE 2415 Review of a Financial Report: Company Limited by Guarantee or an Entity Reporting under the ACNC Act or Other Applicable Legislation or Regulation](#).

Questions for the AUASB members

No.	Questions for AUASB members
1	Do AUASB members have any feedback on the draft Project Plan as set out in Agenda Paper 4.1?
2	Do AUASB members approve the draft Project Plan as set out in Agenda Paper 4.1?

Background

2. A stakeholder approached the Office of the AUASB requesting that PIE related amendments¹ to ASRE 2405 and ASRE 2415 be considered for Australian-specific standards on review engagements.
3. ASRE 2405 was issued in 2008 and has only been updated once in December 2022. The update was narrow in scope, mainly for cross references to the new and revised Quality Management Standards. The standard is still in a pre-clarity format and the language and terminology don't align with ASRE 2400.
4. ASRE 2415 was issued in 2010 and has been revised three times, with the last revision being in December 2022. The standard only has 5 requirements and serves as a “signpost” to ASRE 2400 or ASRE 2410 for a review of the financial report of a company limited by guarantee, a charity/not-for-profit entity reporting under the ACNC Act and other types of entities under legislation. ASRE 2415 also includes an illustrative review report.
5. The Office of the AUASB recommends revising ASRE 2405 and ASRE 2415 to ensure consistency with ASRE 2400 as well as their continued relevance, clarity, and effectiveness in addressing current industry practices and stakeholder expectations.
6. Paragraph 69 of the [Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications](#), requires a formal project plan for a comprehensive revision of an existing standard. See Agenda Paper 4.1 for the draft Project Plan.

Collaboration with NZAuASB

7. There are no New Zealand equivalents to ASRE 2405 and ASRE 2415.

Materials presented

Agenda paper	Description
4.1	Draft Project Plan

¹ See Agenda Item 3 of the [12 November 2025 meeting pack](#) for more details.



AUASB Project Plan

Project Title:	Revision of Australian-specific Standards on Review Engagements – ASRE 2405 and ASRE 2415
Date of Meeting:	1 June 2026
Prepared by:	See Wen Ewe

A. Overview of Project

Information Gathering/Background

Why is this being brought to the AUASB's attention?

1. The IAASB issued Narrow Scope Amendments to the ISQMs, ISAs and ISRE 2400 (Revised) as a result of the Revisions to the Definitions of Listed Entity and Public Interest Entity in the IESBA Code¹ on 1 September 2025². The AUASB approved conforming amendments to ASRE 2400³ and ASRE 2410⁴ at the November 2025 AUASB meeting. As the suite of AUASB Standards on Review Engagements also includes [ASRE 2405](#)⁵ and [ASRE 2415](#)⁶, a stakeholder brought it to the Office of the AUASB's attention that consideration should be given to whether the PIE related amendments to ASRE 2400 should flow through to Australian-specific standards on review engagements.

What information gathering has been completed to date?

2. The nature of the required revisions as outlined in paragraph 9 below is such that no specific information gathering is required.

What additional information gathering needs to be completed and why?

3. The Office of the AUASB will meet with and seek feedback from the relevant stakeholders impacted by any revisions to these standards, including representatives of accounting firms and the ACNC. Paragraph 69 of the [Due Process Framework for Developing, Issuing and Maintaining AUASB Pronouncements and Other Publications](#) (AUASB Due Process Framework), requires public exposure of a comprehensive revision to an existing standard.
4. Given the narrow scope of the proposed amendments (see below), a short exposure period would be appropriate. However, given the timing of the project relative to the peak June reporting season, the exposure period will be 60 days.

B. Scope

What is the problem we are trying to solve (project objective)?

What are the major issues that need to be addressed?

ASRE 2405

5. ASRE 2405 is an Australian-specific standard that was issued in August 2008 in “pre-Clarity format” for the purpose of establishing mandatory requirements and providing explanatory guidance

¹ International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants (including International Independence Standards)*

² See Agenda Item 3 of the [12 November 2025 meeting pack](#) for more details.

³ See ASRE 2400 *Review of a Financial Report Performed by an Assurance Practitioner Who is Not the Auditor of the Entity*.

⁴ See ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*.

⁵ See ASRE 2405 *Review of Historical Financial Information Other than a Financial Report*.

⁶ See ASRE 2415 *Review of a Financial Report: Company Limited by Guarantee or an Entity Reporting under the ACNC Act or Other Applicable Legislation or Regulation*.

on the assurance practitioner's professional responsibilities when undertaking an engagement to review historical financial information, other than a financial report, and on the form and content of the assurance practitioner's review report.

6. As part of the IAASB's Clarity project⁷, ISRE 2400 was revised and new drafting guidelines and principles were issued to support consistent drafting of clearer standards. As of the date of writing this paper, ISRE 2400 has been revised at least three times.
7. ASRE 2405 remains in pre-clarity format and has not been subject to conforming and consequential amendments in recent projects (with the exception of Quality Management Standards project⁸).

ASRE 2415

8. ASRE 2415 is made under section 336 of the *Corporations Act 2001* and deals with the responsibilities of the auditor to review the financial report of:
 - (a) A company limited by guarantee that has elected, under section 301(3) of the Act, to have its financial report reviewed instead of audited. It also deals with the form and content of the review report, which is based on the example review reports contained within other existing review standards.
 - (b) A charity or not-for-profit entity that has elected, under the ACNC Act, to have its financial report reviewed instead of audited.
 - (c) An entity required to report under other applicable legislation or regulation.
9. ASRE 2415 is largely a "sign-post standard" (i.e. referring to ASRE 2400 or ASRE 2410) and was last revised in December 2022. Consideration will be given to flowing through the PIE Track 2 amendments to the example auditor's review report in Appendix 1.

Project Objectives

10. The objectives are to:
 - (a) revise ASRE 2405 to a clarity format and update the standard to use consistent language and ensure the requirements are consistent with the latest ASRE 2400; and
 - (b) update ASRE 2415 to cover the PIE Track 2 changes and ensure that the illustrative auditor's review report wording is consistent with ASRE 2400.

Project Scope

11. Revision of ASRE 2405 and narrow scope amendments to ASRE 2415.

What AUASB output will best respond to this?

12. Revised ASRE 2405 and updated ASRE 2415.

Should an external resource be used?

13. As this project is not complex in nature, a project advisory group or external specialist is not required. All proposed amendments will be prepared by the Office of the AUASB, subject to input from the AUASB, and exposed publicly for stakeholder feedback.

⁷ International standards in the pre-Clarity format contain basic principles and essential procedures (identified in bold type lettering and by the word "should", often referred to as "black letter requirements") together with related guidance in the form of explanatory and other material (often referred to as "grey letter material"), including appendices.

⁸ The AUASB has updated cross references to the new Quality Management Standards for the entire suite of AUASB Standards in December 2022.

C. Project Governance

Why is this in the public interest?

14. ASRE 2405 and ASRE 2415 are widely used and help ensure consistency in work effort and reporting through the review reports.

Action Plan/Timetable

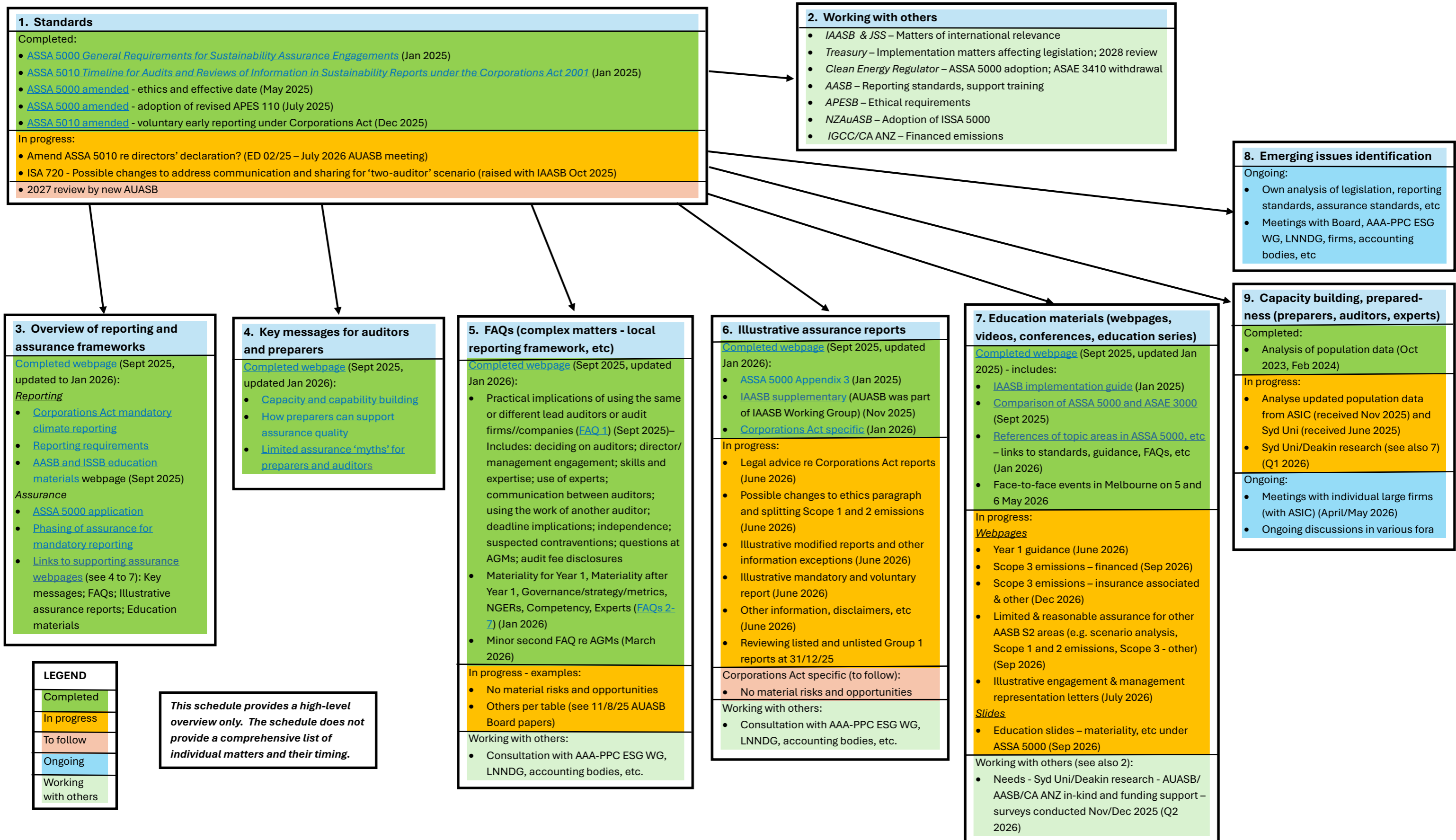
Date	Description
<i>1 June 2026</i>	<i>Present project plan to AUASB for approval</i>
<i>12 August 2026</i>	<i>Present exposure draft covering the following to the AUASB for approval:</i> <ul style="list-style-type: none"><i>• Proposed revised ASRE 2405; and</i><i>• Proposed revised ASRE 2415</i>
<i>19 October 2026</i>	<i>Closing date for submissions on proposed revised ASRE 2405 ED</i>
<i>15 December 2026</i>	<i>Present revised ASRE 2405 and ASRE 2415 to AUASB for approval</i>

AUASB WORK PLAN OVERVIEW (25 May 2026)

AREA	DETAILS	DOMESTIC/ INTERNATIONAL	STANDARD/ GUIDANCE/ SUPPORT	PRIORITY	RESOURCES	TIMING		
SUSTAIN- ABILITY ASSURANCE	1. Amend ASSA 5010 re directors' declaration	ED 02/25. To be considered further at August 2026 AUASB meeting.	Domestic	Standard	High	High	Q2 2026	
	2. Guidance & monitoring	FAQs to address identified areas. Financed & insured emissions using data providers. Illustrative audit reports – legal advice, ethics paragraph, etc. Illustrative engagement letters & management representation letters. Education.	Domestic	Guidance	High High Low High Medium	High High High High Medium	See next page	
FINANCIAL REPORT AND OTHER ASSURANCE	3. PIE Track 2 Pt 2	Possibly expand standards on QM and KAMs to PIEs.	International	Standards	Medium	Medium	2026-7	
	4. Going Concern & Fraud	Implementation support for new standards.	International	Support	Medium		Q1 2026	
	5. Audit Evidence, Risk Response, Analytical Procedures	IAASB developing exposure drafts.	International	Standards	High	Medium	2026-7	
	6. Inventories, Confirmations	IAASB developing exposure drafts.	International	Standards	High	Medium	2026-7	
	7. Technology	IAASB project focussed on quality management.	International	Guidance	Medium	Medium	2026-7	
	8. ISA 540 Estimates (post implementation review)	IAASB survey released. Virtual roundtable held 21/5/26. Preparing response to IAASB.	International	Standard	Low	Low	2026-7	
	9. ISRE 2410 <i>Interim reviews</i>	AUASB and NZAuASB resourcing IAASB project. Wrap around to IAASB ED with AUASB for approval. Local outreach planned. Comments due with IAASB by 3/9/26.	International	Standard	Medium	High	2026-7	
	10. Support for other IAASB projects	To be determined	International	Standard	Low	High	2027	
	11. ASRE 2405 and ASRE 2415 updates	Draft project plan to be considered by AUASB on 1 June 2026	Domestic	Standards	Low	Low	2026	
	12. GS 007 <i>Investment service organisations</i>	Revision for practice matters. PAG meeting regularly.	Domestic	Guidance	Medium	High	Q3 2026	
	13. Valuation of investments in external unlisted MISs & other RSE matters	Participation in AAA-PPC RSE Taskforce meetings. Project to be discussed at 1 June 2026 AUASB meeting.	Domestic	Guidance	High	Medium	Q2 2026	
	14. Managed Investment Scheme compliance plan audits	Update, subject to current Treasury consultation .	Domestic	Standard, Guidance	High	High	2029	
	15. GS 015 <i>Investments in Associates</i>	Minor update for updated accounting standards.	Domestic	Guidance	Low	Low	2026	
	16. GS 023 <i>Public sector</i>	Minor update for revised ASA 570.	Domestic	Guidance	Low	Low	2026	
	17. Cybersecurity	Simplified information sheet and review of approach.	Domestic	Guidance	Medium	Low	2026	
	18. FRC Audit Review Working Group	Use of RCAs in State and other legislation.	Domestic	Support	Low	Low	2025-6	
	BOTH	19. IAASB work plan and projects	Influence (e.g. through IAASB & IESBA Stakeholder Advisory Council). Comments submitted on IAASB/IESBA environmental survey . IAASB to consult on 2028/31 work plan later.	International	-	High	High	2026-7
		20. Website refresh	Accessing standards by reporting period, web design software, etc.	Domestic	-	Medium	Medium	2026
21. Stakeholder engagement		Ongoing engagement.	Domestic	-	High	High	Ongoing	
22. Legislation and reform		FRC/AASB/AUASB merger. Treasury consultation on sustainability reporting & assurance. Treasury consultation on ethics, consulting and audit. Enforceability of firm quality management and ethical standards.	Domestic	-	High	High	2026-7	

SUSTAINABILITY ASSURANCE

AUASB IMPLEMENTATION SUPPORT, GUIDANCE AND EDUCATION OVERVIEW (25 May 2026)





ATTACHMENT: SUSTAINABILITY ASSURANCE PHASING IN - CORPORATIONS ACT (ASSA 5010)

Years commencing	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6
Group 1	1/1/25 to 30/6/26	1/7/26 to 30/6/27	1/7/27 to 30/6/28	1/7/28 to 30/6/29	1/7/29 to 30/6/30	1/7/30 to 30/6/31
Group 2	1/7/26 to 30/6/27	1/7/27 to 30/6/28	1/7/28 to 30/6/29	1/7/29 to 30/6/30	1/7/30 to 30/6/31	1/7/31 to 30/6/32
Group 3	1/7/27 to 30/6/28	1/7/28 to 30/6/29	1/7/29 to 30/6/30	1/7/30 to 30/6/31	1/7/31 to 30/6/32	1/7/32 to 30/6/33
Governance	Limited	Limited	Limited	Reasonable	Reasonable	Reasonable
Strategy - Risks and opportunities (AASB S2 subparagraphs 9(a), 10(a) and 10(b))	Limited	Limited	Limited	Reasonable	Reasonable	Reasonable
Strategy – Risks and opportunities (other)	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Climate resilience assessments / Scenario analysis	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Transition plans	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Risk management	None	Limited	Limited	Reasonable	Reasonable	Reasonable
Scope 1 and 2 emissions	Limited	Limited	Limited	Reasonable	Reasonable	Reasonable
Scope 3 emissions	N/A	Limited	Limited	Reasonable	Reasonable	Reasonable
Other climate-related metrics and targets	None	Limited	Limited	Reasonable	Reasonable	Reasonable

Notes:

1. For the purposes of ASSA 5010:
 - (a) Group 1 entities include entities that voluntarily report under the *Corporations Act 2001* (the Act) from years commencing 1/1/25 to 30/6/26.
 - (b) Group 2 entities include:
 - (i) Entities that voluntarily report under the Act from years commencing 1/7/26 to 30/6/27; and
 - (ii) Entities that voluntarily reported under the Act for one year but did not report under the Act for the following year that commenced before 1 July 2027.
 - (c) Group 3 entities include:
 - (i) Entities that voluntarily report under the Act from years commencing 1/7/27 to 31/12/27; and
 - (ii) Entities that reported voluntarily under the Act for a year but did not report under the Act for a following year that commenced before 1/1/28, other than entities that meet the definition of a Group 2 entity under ASSA 5010.
2. Group 1 entities with years commencing 1/1 to 30/6 will be subject to the Year 1 provisions twice (e.g. years commencing 1/1/25 and 1/1/26). Reporting of Scope 3 emissions is required for years commencing on or after 1/1/26 for Group 1 entities.
3. For years commencing of or after from 1/7/30 the Act requires reasonable assurance for all mandatory climate disclosures.
4. The phasing for assurance on statements that there are no material climate-related risks and opportunities is the same as for 'Strategy – Risks and Opportunities (AASB S2 subparagraphs 9(a), 10(a) and 10(b))'.
5. Where the entity does not intend to disclose a transition plan or target, assurance work in the first instance concerns whether the entity has a transition plan or target to be disclosed.
6. Where an entity first meets the criteria as a Group 1, 2 or 3 entity for the second or third year of reporting for the group (Year 2 or 3) and does not make disclosures on Scope 3 emissions using the exemption in AASB S2 for the first year of reporting, the auditor is not required to give limited assurance on those disclosures for that year.