

## Australian Custodial Services Association (“ACSA”) comments on implementation of Guidance Statement GS 007 on investment management service auditor’s reports

### Background

The AUASB is inviting comments from practitioners and other stakeholders, on their experiences in implementing *GS 007 Audit Implications of the Use of Service Organisations for Investment Management Services* (“GS 007”). The intention is to revise GS 007 in 2011 to anchor to the new suite of clarity standards as well as incorporate feedback from key stakeholders within the Australian investment management services community.

ACSA members include custodians and administrators who hold and administer securities in excess of \$1.6 trillion and employ more than 3000 staff. Custodians and administrators are a core provider of outsourced services (and GS 007 reports) within the Australian financial services industry. As the peak body representing the custody and investment administration sector ACSA provides this submission in response to the four areas where the AUASB is seeking comment.

### ACSA Response

ACSA has reviewed the experience of a representative sample of member custodians, and has summarised responses to each area of feedback as follows:

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

Controls reports prepared in accordance with GS 007 have become the industry standard. The obligation to provide a controls report is generally included as a contractual condition of the service organisation within client contracts.

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

Feedback from service organisation clients has indicated that controls reports prepared under GS 007 have generally improved transparency over the service organisation’s control environment when contrasted to reports prepared under previous auditing standards and guidance.

Some clients have expressed a need for additional guidance on how to interpret the reports and determine the effectiveness of the control environment where a service organisation has cross border operations and prepares controls reports under GS 007 for Australian based services and other international reporting standards for international based services.

Additional guidance from the AUASB on the assessment of service organisation control environments where organisations issue GS 007 reports and those prepared under international controls reporting standards would be beneficial. Specific areas where guidance on the interpretation of differences would be beneficial include:

- Describing the in-scope services that the control objectives and procedures relate

- ▶ Audit period of coverage may differ between the reports
  - ▶ The description of controls and nature of testing performed
  - ▶ Level of disclosure on testing exceptions, including sample sizes and materiality thresholds
  - ▶ User entity controls and the obligation of the client
3. *Are the control objectives comprehensive, relevant and clear for each service area? If not, please provide details of any suggested amendments or additional objectives.*
- Control objectives are generally comprehensive across the range of investment management services.
- Some clients receive other services not covered by the GS 007 minimum control objectives, such as unit pricing. Service organisations generally include these services as additional control objectives / controls within the GS 007 report.
- To improve transparency and consistency across service organisations it may be beneficial to include unit pricing as an additional control objective within GS 007.
4. *Do the six services addressed by GS 007 cover the investment management services which may be part of the user entity's information system, including business processes, relevant to financial reporting?*
- The services included within GS 007 generally cover the investment management services provided by the Australian custody and investment administration sector.

In addition to the responses above, ACSA understand that on 29 June 2010 the AUASB issued Standard on Assurance Engagement, *ASAE 3402 Assurance Reports on Controls at a Service Organisation* ("ASAE 3402"). ASAE 3402 aligns Australian controls reporting auditing standards with the International Standard on Assurance Engagements *ISAE3402, Assurance Reports on Controls at a Service Organisation*, issued by the International Auditing and Assurance Standards Board (IAASB) in December 2009.

ACSA believes this alignment will improve transparency and the usefulness of controls reporting within the Australian investment management services sector.

If you have any questions with respect to this submission please contact Nick Parker (03) 8650 7693.

Yours faithfully and on behalf of ACSA

Paul Khoury, ACSA Executive

Nick Parker, Chair of the ACSA Investment Administration Working Group