



BASEL COMMITTEE ON BANKING SUPERVISION

BANK FOR INTERNATIONAL SETTLEMENTS

Chair

**VIA ELECTRONIC MAIL:
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Mr Jim Sylph
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International Auditing and Assurance Standards Board
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IAASB exposure draft ISAE 3402, Assurance reports on controls at a third party service organisation

Dear Mr Sylph

The Basel Committee on Banking Supervision (the Committee) welcomes the opportunity to comment on your recent exposure draft. The Committee has a strong interest in high quality and independent audits of banks and has carefully analysed the proposal captioned above.

We appreciate the efforts of the International Auditing and Assurance Standards Board (IAASB) to draft this International Standard on Assurance Engagements (ISAE) because some banks are third party service organisations that perform services that are part of other entities' information systems relevant to financial reporting. Generally, we agree with the proposed draft. The attached appendix contains responses to the IAASB's request for specific comments. These comments have been prepared by the Committee's Accounting Task Force, which I chair. The Committee trusts that you will find its comments useful and constructive.

If you have any questions regarding our comments, please feel free to contact me at (+33 1 4292 6579), Marc Pickeur, who chairs the Audit Subgroup of the Accounting Task Force (+32 2 220 5253), or Linda Ditchkus at the Basel Committee Secretariat (+41 61 280 8007).

Yours sincerely,

Sylvie Mathérat



Appendix

Basel Committee comments on IAASB exposure draft ISAE 3402, Assurance reports on controls at a third party service organisation

The Basel Committee on Banking Supervision¹ (the Committee) has a strong interest in high quality and independent audits of banks and has carefully analysed the proposed International Standard on Assurance Engagements (ISAE) pertaining to the auditor's report on controls at a third party organisation that provides a service to user entities when those controls are likely to be part of the user entities' information systems relevant to financial reporting. These requirements are of particular interest to supervisors of banks because, as noted in the Appendix to the exposure draft of proposed ISA 402, *Audit Considerations Relating to an Entity Using a Third Party Service Organization*, some banks are third party service organisations and perform services, such as fiduciary, custodial, transfer agent, and loan servicing activities, which relate to financial reporting of other banks and organisations. Also, banks commonly need to process large volumes of data and, in some cases, hire a third party service organisation to process data or perform other services. Therefore, banking supervisors are interested in the requirements applicable to professional accountants who are engaged to report on controls at these service organisations.

Request for specific comments:

Question 1: The proposal that the ISAE be written for application to assertion-based engagements. In particular, the IAASB would welcome any views on whether there are situations in which it would not be possible or practicable for management of the service organisation to provide an assertion.

No comment.

¹ The Basel Committee on Banking Supervision is a committee of banking supervisory authorities, which was established by the central bank Governors of the Group of Ten countries in 1975. It consists of senior representatives of bank supervisory authorities and central banks from Belgium, Canada, France, Germany, Italy, Japan, Luxembourg, the Netherlands, Spain, Sweden, Switzerland, the United Kingdom and the United States. It usually meets at the Bank for International Settlements in Basel, where its permanent Secretariat is located.

Question 2: The inclusion in the proposed ISAE of a number of requirements based on ISAs dealing with matters such as using the work of the internal audit function, sampling, documentation, and using the work of a service auditor's expert. In particular, has the IAASB identified all such matters as are relevant? And should these matters be dealt with in proposed ISAE 3402 or in ISAE 3000?

We believe these matters should be dealt with in ISAE 3000, *Assurance Engagements*.

Question 3: Whether ISAE 3000 should be amended with respect to auditor's external experts as outlined in the Explanatory Memorandum.

Yes. Additionally, we understand that the IAASB does not have sufficient resources to immediately address redrafting ISAE 3000 and ISAE 3400, *The Examination of Prospective Financial Information*, in the clarity form. We suggest that this redrafting be performed as soon as is practicable."

4. The proposed requirements regarding the minimum elements of suitable criteria.

No comment.

5. Whether the description of tests of controls included in a Type B report should include the disclosure of sample sizes determined by the service auditor only when a deviation from controls is found.

Yes. We believe this information will assist the auditor of an entity that uses the service organisation in the performance of the auditor's risk assessments.

Other comments

Paragraph 59 of proposed ISAE 3402 discusses the service auditor's responsibilities when the auditor becomes aware of non-compliance with laws and regulations or certain uncorrected errors attributable to the service organisation, but it does not address the service auditor's responsibilities in response to the identification of fraud or the obtaining of information that fraud may exist. The IAASB should consider including a cross reference in paragraph 59 of proposed ISAE 3402 (or in the application material related to paragraph 59) to the communication requirements in ISA 240, *The Auditor's Responsibility to Consider Fraud and Error in an Audit of Financial Statements*. This cross reference would clearly establish the service auditor's communication responsibilities related to fraud at a service organisation.