

Assurance Reports on Controls at a Service Organization— Draft International Standard on Assurance Engagements (ISAE) 3402

(Marked from ED dated December 2007)

-(Effective for service auditor's assurance reports covering periods ~~beginning~~ending on or after ~~{date}~~June 15, 2011)

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Appendix 1: Example ~~Management~~ Service Organization’s Assertions

Appendix 2: Example Service Auditor’s Assurance Reports

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~~[Proposed]~~ International Standard on Assurance Engagements (ISAE) 3402, “Assurance Reports on Controls at a ~~Third Party~~ Service Organization” should be read in conjunction with the “Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services.”

Introduction

Scope of this ISAE

1. This International Standard on Assurance Engagements (ISAE) deals with ~~reasonable~~ assurance engagements undertaken by a professional accountant in public practice¹ to provide a report for use by user entities and their auditors on the controls at ~~an third party-a~~ service organization that provides a service to user entities ~~when those controls are that is~~ likely to be part of relevant to user entities' ~~information systems relevant to internal control as it relates to~~ financial reporting. It complements ~~[proposed] ISA 402 (Revised and Redrafted)~~,² in that reports prepared in accordance with this ISAE are capable of providing appropriate evidence under ~~[proposed] ISA 402 (Revised and Redrafted)~~.
2. ~~The focus of this~~ This ISAE is on controls at third party service organizations applies only when the service organization is responsible for, or otherwise able to make an assertion about, the suitable design of controls. Where this is not the case, it will not be possible for the service auditor to comply with all of the requirements of, and report in accordance with, this ISAE. This ISAE is, however, relevant to financial reporting by user entities. It may also be applied, adapted as necessary in the circumstances of the as guidance in such cases if the service auditor undertakes an assurance engagement, for under ISAE 3000, to report on whether controls at the service organization operated as described.³ (Ref: Para. A1-A2)
- 3 This ISAE does not deal with assurance engagements to report separately on:
 - (a) ~~Controls~~ controls at a service organization other than those related to a service that ~~are is~~ likely to be part of relevant to user entities' ~~information systems relevant to internal control as it relates to~~ financial reporting (for example, controls that affect user entities' regulatory compliance, production or quality control). This ISAE is, however, relevant as guidance for such engagements carried out under ISAE 3000. (Ref: Para. A1)
 - (b) ~~Controls at a shared service center, which provides services to a group of related entities.~~
34. In addition to issuing an assurance report on controls, a service auditor may also be engaged to provide reports such as the following ~~reports~~, which are not dealt with in this ISAE:
 - (a) A report on a user entity's transactions or balances maintained by a service organization; or
 - (b) An agreed-upon procedures report on controls at a service organization.
45. The "International Framework for Assurance Engagements" (the Assurance Framework) ~~notes states: that an assurance engagement may be a "reasonable assurance" engagement or a~~

¹ The International Federation of Accountants' Code of Ethics for Professional Accountants (IFAC Code) defines a professional accountant as "an individual who is a member of an IFAC member body," and a professional accountant in public practice as "a professional accountant, irrespective of functional classification (e.g., audit, tax or consulting) in a firm that provides professional services. This term is also used to refer to a firm of professional accountants in public practice."

² ISA 402, "Audit Considerations Relating to an Entity Using a Service Organization."

³ ISAE 3000, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information."

“limited assurance” engagement; that an assurance engagement may be either an “assertion-based” engagement or a “direct reporting” engagement-; and, that the assurance conclusion for an assertion-based engagement can be worded either in terms of the responsible party’s assertion or directly in terms of the subject matter and the criteria.⁴ This ISAE ~~applies to only deals with~~ assertion-based engagements— that convey reasonable assurance, with the assurance conclusion worded directly in terms of the subject matter and the criteria.⁵

Relationship with Other Professional Pronouncements

- ~~56.~~ The service auditor is required by ~~paragraph 4011~~ of this ISAE to comply with ISAE 3000⁶ in addition to this ISAE. The Assurance Framework, which defines and describes the elements and objectives of an assurance engagement, provides the context for understanding this ISAE and ISAE 3000.
- ~~67.~~ Compliance with ISAE 3000 requires, among other things, that the service auditor comply with the International Federation of Accountants’ *Code of Ethics for Professional Accountants* (the IFAC Code), and implement quality control procedures that are applicable to the individual engagement.⁷

Effective Date

- ~~78.~~ This ISAE is effective for service auditor’s assurance reports covering periods ~~beginningending~~ on or after ~~{date}.~~ June 15, 2011.

Objectives

- ~~89.~~ The ~~overall~~ objectives of the service auditor are ~~to~~:
- (a) ~~Obtain~~To obtain reasonable assurance about whether, in all material respects, based on suitable criteria:
 - (i) ~~Management’s~~The service organization’s description of ~~theits~~ system as designed and implemented is fairly presented;
 - (ii) The controls ~~are~~were suitably designed;
 - (iii) ~~When~~Where included in the scope of the engagement, the controls operated effectively.
 - (b) ~~Report~~To report on the matters in (a) above in accordance with the service auditor’s findings.

Definitions

- ~~910.~~ For purposes of this ISAE, the following terms have the meanings attributed below:

⁴ Assurance Framework, paragraphs 10, 11 and 57.

⁵ Paragraphs 13 and 52(k) of this ISAE.

⁶ _____

⁷ ISAE 3000, paragraphs 4 and 6.

- (a) Carve-out method – Method of dealing with the services provided by a subservice organization, whereby the service organization’s description of its system includes the nature of the ~~activities performed~~services provided by a subservice organization, but that subservice organization’s relevant control objectives and related controls are excluded from the service organization’s description of ~~the its~~ system and from the scope of the service auditor’s engagement. The service organization’s description of ~~the its~~ system and the scope of the service auditor’s engagement include controls at the service organization to monitor the effectiveness of controls at the subservice organization, which may include the service organization’s review of an assurance report on controls at the subservice organization.
- (b) Complementary user entity controls – Controls that the service organization assumes, in the design of its service, will be implemented by user entities, and which, if necessary to achieve control objectives stated in the service organization’s description of its system, are identified in ~~the that~~ description ~~of the system~~.
- (c) Control objectives – The aim or purpose of a particular aspect of controls ~~at the service organization~~. Control objectives ~~ordinarily~~ relate to risks that controls seek to mitigate.
- (d) Controls at the service organization —~~The process designed, implemented and maintained by the service organization to provide reasonable assurance about~~Controls over the achievement of ~~the a~~ control objectives that ~~are relevant to the services~~ is covered by the service auditor’s assurance report ~~and that are likely to be relevant to user entities’ internal control as it relates to financial reporting~~. (Ref: Para. ~~A1~~A3)
- (e) Controls at a subservice organization —~~The process designed, implemented and maintained by~~Controls at a subservice organization to provide reasonable assurance about the achievement of ~~the a~~ control objectives ~~that are relevant to the services covered by the service auditor’s assurance report~~.
- (f) Criteria – Benchmarks used to evaluate or measure a subject matter including, where relevant, benchmarks for presentation and disclosure. ~~Suitable criteria are required for reasonably consistent evaluation or measurement of a subject matter within the context of professional judgment. Criteria need to be available to the intended users to allow them to understand how the subject matter has been evaluated or measured. See paragraphs 15–17 for minimum elements encompassed by criteria that are suitable for engagements to report on controls at the service organization.~~
- (g) Inclusive method – Method of dealing with the services provided by a subservice organization, whereby the service organization’s description of its system includes the nature of the services ~~performed~~provided by a subservice organization, and that subservice organization’s relevant control objectives and related controls are included in the service organization’s description of ~~the its~~ system and in the scope of the service auditor’s engagement. (Ref: Para. A4)
- (h) Internal audit function – ~~The service organization’s internal~~ An appraisal activity whose functions include, amongst other things, examining, evaluating and monitoring the adequacy and effectiveness of internal control.

- (i) Internal auditors and others (for – Those individuals who perform the activities of the internal audit function. Internal auditors may belong to an internal audit department or equivalent function, for example, a compliance or risk department) – who perform similar activities to internal auditors.
- (j) Report on the description and design of controls at a service organization (referred to in this ISAE as a “~~Type A~~type 1 report”) – A report that comprises:
- (i) ~~A description of the service organization’s~~The service organization’s description of its system prepared by management of the service organization;
 - (ii) A written assertion by the service organization’s ~~management~~ that, in all material respects, and based on suitable criteria:
 - a. The description fairly presents the service organization’s system ~~that had been as~~ designed and implemented as at the specified date;
 - b. The controls related to the control objectives stated in the service organization’s description of its system were suitably designed as at the specified date; and
 - (iii) A service auditor’s assurance report that conveys reasonable assurance about the matters in (ii)a.-b. above.†
- (k) Report on the description, design and operating effectiveness of controls at a service organization (referred to in this ISAE as a “~~Type B~~type 2 report”) – A report that comprises:
- (i) ~~A~~The service organization’s description of ~~the service organization’s~~its system ~~prepared by management of the service organization;~~
 - (ii) A written assertion by the service organization’s ~~management~~ that, in all material respects, and based on suitable criteria:
 - a. The description fairly presents the service organization’s system ~~that had been as~~ designed and implemented throughout the specified period;
 - b. The controls related to the control objectives stated in the ~~description~~service organization’s description of its system were suitably designed throughout the specified period; and
 - c. The controls related to the control objectives stated in the service organization’s description of its system operated effectively throughout the specified period;
 - (iii) A service auditor’s assurance report that:
 - a. Conveys reasonable assurance about the matters in (ii)a.-c. above; and
 - b. Includes a description of the ~~service auditor’s~~ tests of controls and the results thereof.
- (~~k~~l) Service auditor – An auditor who, at the request of the service organization, provides an assurance report on ~~the~~ controls ~~of~~at a service organization.

- (~~lm~~) Service organization – A third-party organization (or segment of a third party organization) that provides services to user entities that are ~~part of those entities' information system~~ likely to be relevant to user entities' internal control as it relates to financial reporting. (~~m~~)
- (~~n~~) Service organization's system (or the system) – The policies and procedures designed, and implemented and maintained by the service organization to provide user entities with the services covered by the service auditor's assurance report. The service organization's description of ~~theits~~ system prepared by management of the service organization includes identification of the services covered; the period, or in the case of a type 1 report, the date, to which the description relates; control objectives; and related controls. (~~n~~)
- (~~o~~) Service organization's assertion – The written assertion about the matters referred to in paragraph 10(k)(ii) (or paragraph 10(j)(ii) in the case of a type 1 report).
- (~~p~~) Subservice organization – A service organization used by another service organization to perform some of the services provided to user entities that are ~~part of those likely to be relevant to~~ user entities' ~~information systems relevant to internal control as it relates to~~ financial reporting. (~~o~~)
- (~~q~~) Test of controls – A procedure designed to evaluate the operating effectiveness of controls in ~~preventing, or detecting and correcting, errors that could result in the non-achievement of specified~~ achieving the control objectives stated in the service organization's description of its system.
- (~~pr~~) User auditor – An auditor who audits and reports on the financial statements of a user entity.⁸
- (~~qs~~) User entity – An entity that uses a service organization.

Requirements

ISAE 3000

- ~~1011.~~ The service auditor shall not represent compliance with this ISAE unless the service auditor has complied with the requirements of this ISAE and ISAE 3000. – In addition to this ISAE, the service auditor shall comply with ISAE 3000. (Ref: Para. A5)

Ethical Requirements

- ~~112.~~ The service auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to assurance engagements. (Ref: Para. ~~A2~~A6)

Management and Those Charged with Governance

⁸ In the case of a subservice organization, the service auditor of a service organization that uses the services of the subservice organization is also a user auditor.

13. Where this ISAE requires the service auditor to inquire of, request representations from, communicate with, or otherwise interact with the service organization, the service auditor shall determine the appropriate person(s) within the service organization's management or governance structure with whom to interact. This shall include consideration of which person(s) have the appropriate responsibilities for and knowledge of the matters concerned.
(Ref: Para. A7)

Acceptance and Continuance

- ~~12~~14. Before agreeing to accept or continue, an engagement ~~The service auditor shall:~~ continue (or accept where applicable) an engagement only if: (Ref: Para. A3)

- (a) ~~The service auditor's (preliminary) knowledge of the engagement circumstances indicates that:~~ Determine whether:
- (i) The criteria to be used applied by the service organization to prepare the description of its system will be suitable and available to ~~the intended users~~ entities and their auditors; and
 - (ii) ~~The service auditor will have access to sufficient appropriate evidence to the extent necessary; and~~
 - (iii) ~~The description of the system included in the scope of the engagement and the service organization's description of its system~~ will not be so limited that they are it is unlikely to be useful to user entities and their auditors that the engagement has a rational purpose.
- (b) ~~In agreeing the terms of the engagement, management of~~ Obtain the agreement of the service organization that it acknowledges and understands its responsibility ~~for:~~
- (i) ~~Preparing and presenting~~ For the preparation of the description of ~~the its~~ system, and accompanying service organization's assertion, including the completeness, accuracy and method of presentation of ~~the that~~ description and assertion; (Ref: Para. A8)
 - (ii) ~~Stating~~ To have a reasonable basis for the service organization's assertion accompanying the description of its system; (Ref: Para. A9);
 - (ii) For stating in the service organization's assertion the criteria it used to prepare the description of its system;
 - (iii) ~~Stating~~ For stating in the description of its system:
 - a. The control objectives ~~(where not; and,~~
 - b. Where they are specified by law or regulation, or another party, ~~(for example a user group or a professional body), and~~ the party who specified them;
 - (iv) For identifying the risks that threaten ~~their~~ achievement;
 - (iv) ~~Designing, of the control objectives stated in the description of its system, and designing and implementing and maintaining~~ controls to provide reasonable

assurance that those risks will not prevent achievement of the control objectives stated in the description of its system, and therefore that the stated control objectives will be achieved; ~~and~~ (Ref: Para. A10)

- (v) ~~Providing~~To provide the service auditor with:
- a. ~~All~~Access to all information, such as records ~~and~~, documentation and other matters, including service level agreements, of which the service organization is aware that ~~are~~is relevant to the ~~preparation and presentation of the description of system and accompanying description of the service organization's system and the accompanying service organization's~~ assertion;
 - b. ~~Any additional~~Additional information that the service auditor may request from the service organization for the purpose of the assurance engagement; and
 - c. Unrestricted access to ~~those persons~~ within the service organization from whom the service auditor determines it necessary to obtain evidence.

Acceptance of a Change in the Terms of the Engagement

- ~~135.~~ If ~~management~~the service organization requests a change in the scope of the engagement before the completion of the engagement, the service auditor shall be satisfied that there is a reasonable justification for the change. (Ref: Para. ~~A4~~A11-A12)

Assessing the Suitability of the Criteria

- ~~1416.~~ As required by ISAE 3000, the service auditor shall assess whether the service organization has used suitable criteria in preparing ~~and presenting~~ the description of ~~the its~~ system, in evaluating whether controls are suitably designed, and, in the case of a ~~Type B~~type 2 report, in evaluating whether controls are operating effectively.⁹

- ~~1715.~~ ~~Suitable~~In assessing the suitability of the criteria ~~for evaluating whether to evaluate~~ the service organization's description of ~~the its~~ system ~~is fairly presented~~, the service auditor shall determine if the criteria encompass, at a minimum ~~whether~~:

- (a) Whether the description ~~P~~resents how the service organization's system ~~made available to user entities has been~~was designed and implemented ~~to process relevant transactions~~, including, as appropriate:
 - (i) The types of services provided, including, as appropriate, classes of transactions processed;
 - (ii) The procedures, within both information technology and manual systems, by which services are provided, including, as appropriate, procedures by which transactions are initiated, recorded, processed, corrected as necessary, and

⁹ ISAE 3000, paragraph 19.

transferred to the reports ~~presented to~~ and other information prepared for user entities;

- (iii) The related records and supporting information, including, as appropriate, accounting records, supporting information and specific accounts that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the reports ~~presented to~~ and other information prepared for user entities;
- (iv) How the service organization's system ~~captures~~ deals with significant events and conditions, other than transactions;
- (v) The process used to prepare reports ~~presented to~~ and other information for user entities;
- (vi) The ~~stated~~ specified control objectives and controls designed to achieve those objectives; ~~and~~
- (vii) Complementary user entity controls contemplated in the design of the controls; and
- (viii) Other aspects of the service organization's control environment, risk assessment process, information system (including the related business processes) and communication, control activities and monitoring controls that are relevant to the services provided.

(b) ~~Does not omit~~ In the case of a type 2 report, whether the description includes relevant details of changes to the service organization's system during the period covered by the description.

(c) Whether the description omits or distorts ~~distorts~~ information relevant to the scope of the service organization's system being described, while acknowledging that the description is ~~presented~~ prepared to meet the common needs of a broad range of user entities and their auditors and may not, therefore, include every aspect of the service organization's system that each individual user entity and its auditor may consider important in its particular environment.

~~1618. Suitable criteria for evaluating whether controls are suitably designed to provide reasonable assurance that the stated control objectives will be achieved shall~~ In assessing the suitability of the criteria to evaluate the design of controls, the service auditor shall determine if the criteria encompass, at a minimum, whether:

- (a) The service organization has identified the risks that threaten achievement of the control objectives stated in the description ~~have been identified~~ of its system; and
- (b) The controls identified ~~controls in that description~~ would, if operated as described, provide reasonable assurance that those risks do not prevent the stated control objectives from being achieved. ~~17. — Suitable criteria for evaluating whether controls have operated effectively to provide~~

19. In assessing the suitability of the criteria to evaluate the operating effectiveness of controls in providing reasonable assurance that the stated control objectives identified in the description will be achieved, the service auditor shall determine if the criteria encompass, at a minimum, whether the controls were consistently applied as designed throughout the specified period. This includes whether manual controls were applied by individuals who have the appropriate competence and authority. (Ref: Para. A5A13-A15)

Materiality

- ~~18.~~ The 20. When planning and performing the engagement, the service auditor shall consider materiality with respect to the fair presentation of the description, the suitability of the design of controls and, in the case of a Type-B type 2 report, the operating effectiveness of controls ~~when planning and performing the engagement~~. (Ref: Para. A6A16-A18)

Using the Work of a Service Auditor's Expert

~~The Capabilities, Competence and Objectivity of the Service Auditor's Expert~~

- ~~26.~~ When the service auditor intends to use the work of a service auditor's expert, the service auditor shall evaluate whether the service auditor's expert whose work is to be used has the necessary capabilities, competence and objectivity for the purposes of the engagement. In the case of a service auditor's external expert, the evaluation of objectivity shall include inquiry regarding interests and relationships that may create a threat to that expert's objectivity.

~~Obtaining an Understanding of the Field of Expertise of the Service Auditor's Expert~~

- ~~27.~~ The service auditor shall obtain a sufficient understanding of the field of expertise of the service auditor's expert to enable the service auditor to:
- ~~(a)~~ Determine the nature, scope and objectives of that expert's work for the purposes of the engagement; and
 - ~~(b)~~ Evaluate the adequacy of that work for the purposes of the engagement.

~~Agreement with the Service Auditor's Expert~~

- ~~28.~~ The service auditor shall agree, in writing when appropriate, the following matters with the service auditor's expert:
- ~~(a)~~ The nature, scope and objectives of that expert's work;
 - ~~(b)~~ The respective roles of the service auditor and that expert; and
 - ~~(c)~~ The nature, timing and extent of communication between the service auditor and that expert, including the form of any report to be provided by that expert.

~~Evaluating the Adequacy of the Service Auditor's Expert's Work~~

- ~~29.~~ The service auditor shall evaluate the adequacy of the service auditor's expert's work for the purposes of the engagement.

Effect on the Service Auditor's Assurance Report

~~30.—If the work of a service auditor's expert has been used, the service auditor shall make no reference to that work in the section of the service auditor's assurance report that contains the service auditor's opinion. The service auditor has sole responsibility for the opinion expressed in the service auditor's assurance report and, accordingly, that responsibility is not reduced by the service auditor's use of the work of a service auditor's expert.~~

~~31.—In the case of a Type B report, if the work of a service auditor's external expert has been used in performing tests of controls, that section of the service auditor's assurance report that describes the service auditor's tests of controls and the results thereof shall include a description of the service auditor's external expert's work and of the service auditor's procedures with respect to that work.~~

Obtaining an Understanding of the Service Organization's System

~~3221.~~ The service auditor shall obtain an understanding of the service organization's system, including controls, that are included in the scope of the engagement. (Ref: Para. ~~A9-A10~~A19-A20)

Obtaining Evidence Regarding the Description

~~3322.~~ The service auditor shall obtain and read the service organization's description of ~~theits~~ system, and shall evaluate whether those aspects of the description included in the scope of the engagement are fairly presented ~~fairly~~, including whether: (Ref: Para. ~~A11-A12~~A21-A22)

- (a) ~~Stated control~~Control objectives stated in the service organization's description of its system are reasonable in the circumstances; (Ref: Para. ~~A13~~A23)
- (b) Controls identified in ~~thethat~~ description were implemented;
- (c) Complementary user entity controls, if any, are adequately described; and
- (d) Services performed by a subservice organization, if any, are adequately described, including whether the inclusive method or the carve-out method has been used in relation to them. (~~Ref: Para. A14~~)

~~3423.~~ The service auditor shall ~~confirm the implementation of the service organization's system~~ determine through other procedures in combination with inquiries ~~of management and other service organization personnel, whether the service organization's system has been implemented.~~ Those other procedures shall include observation, and inspection of records and other documentation, of the manner in which ~~transactions are processed through the~~ service organization's system operates and controls are applied. (~~Ref: Para. A24~~)

Obtaining Evidence Regarding Design of Controls

~~3524.~~ The service auditor shall determine which of the controls at the service organization are necessary to achieve the ~~stated~~-control objectives ~~included~~ stated in the ~~scope of the engagement~~ service organization's description of its system, and shall assess whether those controls were suitably designed. This determination shall include: (Ref: Para. ~~A15-A17~~A25-A27)

- (a) Identifying the risks that threaten the achievement of the ~~stated~~-control objectives ~~included-stated~~ in the ~~scope of the engagement~~ service organization's description of the engagement its system; and
- (b) Evaluating the linkage of controls identified in the service organization's description of its system with those risks.

Obtaining Evidence Regarding Operating Effectiveness of Controls

~~36.~~ 25. When providing a ~~Type B~~ Type 2 report, the service auditor shall test those controls that the service auditor has determined are necessary to achieve the ~~stated~~-control objectives ~~included-stated~~ in the ~~scope of the engagement~~ service organization's description of its system, and assess their operating effectiveness throughout the period. Evidence obtained in prior engagements about the satisfactory operation of controls in prior periods does not provide a basis for a reduction in testing, even if it is supplemented with evidence obtained during the current period. (Ref: Para. ~~A18-A22~~ A28-A32)

~~37~~ 26. When designing and performing tests of controls, the service auditor shall:

- (a) Perform other procedures in combination with inquiry to obtain evidence about:
 - (i) How the control was applied;
 - (ii) The consistency with which the control was applied; and
 - (iii) By who or by what means the control was applied;
- (b) Determine whether controls to be tested depend upon other controls (indirect controls), and if so, whether it is necessary to obtain evidence supporting the operating effectiveness of those indirect controls; and (Ref: Para. A33-A34)
- (c) Determine means of selecting items for testing that are effective in meeting the objectives of the procedure. (Ref: Para. ~~A23-A24~~ A35-A36)

~~38~~ 27. When determining the extent of tests of controls, the service auditor shall consider matters including the characteristics of the population to be tested, ~~including which includes~~ the nature of controls, the frequency of their application (for example, monthly, daily, a number of times per day), and the expected rate of deviation.

~~Attribute~~-Sampling

~~39~~ 28. When the service auditor uses ~~attribute~~-sampling, the service auditor shall: (Ref: Para. ~~A23-A24~~ A35-A36)

- (a) Consider the purpose of the procedure and the characteristics of the population from which the sample will be drawn when designing the sample;
- ~~(b)~~ (b) Determine a sample size sufficient to ~~conclude with~~ reduce sampling risk to an appropriately low level ~~of sampling risk that the total rate of deviation does not exceed the tolerable rate of deviation;~~
- ~~(bc)~~ (b) Select items for the sample in such a way that ~~all~~ each sampling units in the population ~~have~~ has a chance of selection;

- (~~ed~~) If a designed procedure is not applicable to a selected item, perform the procedure on a replacement item; and
- (~~de~~) If unable to apply the designed procedures, or suitable alternative procedures, to a selected item, treat that item as a deviation.

Nature and Cause of Deviations

- ~~4029.~~ The service auditor shall investigate the nature and cause of any deviations identified and shall determine whether:
- (a) Identified deviations are within the expected rate of deviation and are acceptable; therefore, the testing that has been performed provides an appropriate basis for concluding that the control is operating effectively throughout the specified period;
 - (b) Additional testing of the control or of ~~compensating~~other controls is necessary to reach a conclusion on whether the controls relative to ~~the stated~~a particular control objective are operating effectively throughout the specified period; or (Ref: Para. A25)
 - (c) The testing that has been performed provides an appropriate basis for concluding that the control did not operate effectively throughout the specified period.
- ~~4130.~~ In the extremely rare circumstances when the service auditor considers a deviation discovered in a sample to be an anomaly and no ~~compensating~~other controls have been identified that allow the service auditor to conclude that the relevant control objective is operating effectively throughout the specified period, the service auditor shall obtain a high degree of certainty that such deviation is not representative of the population. The service auditor shall obtain this degree of certainty by performing additional procedures to obtain sufficient appropriate evidence that ~~such deviations~~the deviation do not ~~exist in~~affect the remainder of the population.

Using ~~the~~The Work of an Internal Audit Function¹⁰

Obtaining an Understanding of the Internal Audit Function

- ~~19. The service auditor shall obtain an understanding of the aspects of the internal audit function that are relevant to the engagement. (Ref: Para. A7-A8)~~

~~Planning to Use the Work of the Internal Audit Function~~

- ~~20. When the service auditor intends to use the work of the internal audit function, the service auditor shall evaluate:~~
- ~~(a) The objectivity and technical competence of members of the internal audit function;~~
 - ~~(b) Whether the internal audit function is carried out with due professional care; and~~

¹⁰ This ISAE does not deal with instances when individual internal auditors provide direct assistance to the service auditor in carrying out audit procedures.

- ~~(e) The effect of any constraints or restrictions placed on the internal audit function by management or those charged with governance.~~
- ~~21. In making judgments about the effect of the internal audit function's work on the service auditor's procedures, the service auditor shall consider:~~
- ~~(a) The significance of that work to the service auditor's conclusions; and~~
- ~~(b) The degree of subjectivity involved in the evaluation of the evidence gathered in support of those conclusions.~~
31. If the service organization has an internal audit function, the service auditor shall obtain an understanding of the nature of the responsibilities of the internal audit function and of the activities performed in order to determine whether the internal audit function is likely to be relevant to the engagement. (Ref: Para. A37)

Determining Whether and to What Extent to Use the Work of the Internal Auditors

32. The service auditor shall determine:
- (a) Whether the work of the internal auditors is likely to be adequate for purposes of the engagement; and
- (b) If so, the planned effect of the work of the internal auditors on the nature, timing or extent of the service auditor's procedures.
33. In determining whether the work of the internal auditors is likely to be adequate for purposes of the engagement, the service auditor shall evaluate:
- (a) The objectivity of the internal audit function;
- (b) The technical competence of the internal auditors;
- (c) Whether the work of the internal auditors is likely to be carried out with due professional care; and
- (d) Whether there is likely to be effective communication between the internal auditors and the service auditor.
34. In determining the planned effect of the work of the internal auditors on the nature, timing or extent of the service auditor's procedures, the service auditor shall consider: (Ref: Para. A38)
- (a) The nature and scope of specific work performed, or to be performed, by the internal auditors;
- (b) The significance of that work to the service auditor's conclusions; and
- (c) The degree of subjectivity involved in the evaluation of the evidence gathered in support of those conclusions.

Using the Work of the Internal Audit Function

- ~~22. When~~35. In order for the service auditor ~~uses to use~~ specific work of the internal ~~audit function~~auditors, the service auditor shall evaluate and perform procedures ~~to evaluate the~~

~~adequacy of on~~ that work: to determine its adequacy for the service auditor's purposes. (Ref: Para. A39)

~~23. When evaluating~~ 36. To determine the adequacy of specific work performed by the internal ~~audit function~~ auditors for the service auditor's purposes, the service auditor shall ~~consider the adequacy of the scope of work and whether the evaluation of the internal audit function remains appropriate. The service auditor shall~~ evaluate whether:

- (a) The work ~~is was~~ performed by ~~persons~~ internal auditors having ~~appropriate skills~~ adequate technical training and ~~expertise~~ proficiency;
- (b) The work ~~is was~~ properly supervised, reviewed and documented;
- (c) ~~Sufficient appropriate~~ Adequate evidence ~~is has been~~ obtained to ~~be able~~ enable the internal auditors to draw reasonable conclusions;
- (d) Conclusions reached are appropriate in the circumstances and any reports prepared by the internal auditors are consistent with the results of the work performed; and
- (e) ~~Any exceptions~~ Exceptions relevant to the engagement or unusual matters disclosed by the internal ~~audit function~~ auditors are properly resolved.

Effect on the Service Auditor's Assurance Report

~~24.37.~~ If the work of the internal audit function has been used, the service auditor shall make no reference to that work in the section of the service auditor's assurance report that contains the service auditor's opinion. ~~Notwithstanding its degree of autonomy and objectivity, the internal audit function is not independent of the service organization. The service auditor has sole responsibility for the opinion expressed in the service auditor's assurance report and, accordingly, that responsibility is not reduced by the service auditor's use of the work of the internal audit function.~~

~~25. In the case of a Type B report, if the work of the internal audit function has been used in performing tests of controls, that part of the service auditor's assurance report that describes the service auditor's tests of controls and the results thereof shall include a description of the internal auditor's work and of the service auditor's procedures with respect to that work.~~ (Ref: Para. A40)

Written Representations

~~42.38.~~ The service auditor shall request ~~management or those charged with governance~~ the service organization to provide written representations ~~based on their knowledge and belief, having made appropriate inquiries for them to be able to provide such representations:~~ (Ref: Para. A25-A26A41)

- (a) That reaffirm the assertion accompanying the description of the system;
- (b) ~~Whether~~ That it has provided the service auditor with all ~~records, documentation, unusual matters of which they are aware, and other relevant~~ information relevant to

~~the assurance engagement have been made available to the service auditor; and access agreed to;~~¹¹ and

- (c) That ~~they have it~~ has disclosed to the service auditor any of the following of which ~~they are it~~ is aware:
- (i) Non-compliance with laws and regulations, or uncorrected ~~errors~~ deviations attributable to the service organization's ~~management or employees~~ that may affect one or more user entities;
 - (ii) Design deficiencies in controls, ~~including those for which management or, where appropriate, those charged with governance believes the cost of corrective action may exceed the benefits;~~
 - (iii) Instances where controls have not operated as described; and
 - (iv) ~~Subsequent~~ Any events ~~regarding the services subsequent to the period~~ covered by the ~~engagement~~ service organization's description of its system up to the date of the service auditor's assurance report that could have a significant effect on ~~user entities~~ the service auditor's assurance report.

~~39.~~ 43. ~~These~~ The written representations shall be in the form of a representation letter addressed to the service auditor, ~~and~~. The date of the written representations shall be as ~~of the same date near~~ as practicable to, but not after, the date of the service auditor's assurance report.

~~44~~ 40. If ~~management, having discussed the matter with the service auditor, the service organization~~ does not provide one or more of the written representations requested ~~by~~ in accordance with paragraph 38(a) and (b) of this ISAE, the service ~~auditor, the~~ auditor shall disclaim an opinion.

~~(a) — Discuss the matter with management;~~

~~(b) — Reconsider the assessment of the integrity of management; and~~

~~(c) — Take appropriate actions, including determining the possible effect on the~~ disclaim an opinion in the service auditor's assurance report.

Other Information

~~45~~ 41. The service auditor shall read the other information, if any, included in a document containing the service organization's description of ~~the~~ its system and the service auditor's assurance report, to identify material inconsistencies, if any, with that description. While reading the other information for the purpose of identifying material inconsistencies, the service auditor may become aware of an apparent misstatement of fact in that other information.

~~46~~ 42. If the service auditor becomes aware of a material inconsistency or an apparent misstatement of fact in the other information, the service auditor shall discuss the matter with ~~management~~ the service organization. If the service auditor concludes that there is a

¹¹ Paragraph 13(b)(v) of this ISAE.

material inconsistency or a misstatement of fact in the other information that ~~management~~the service organization refuses to correct, the service auditor shall take further appropriate action. (Ref: Para. A42)

Subsequent Events

- ~~47~~43. The service auditor shall inquire whether ~~management~~the service organization is aware of any events subsequent to the period covered by the service organization's description of ~~the~~its system up to the date of the service auditor's assurance report that could have a significant effect on the service auditor's assurance report. If the service auditor is aware of ~~a subsequent~~such an event ~~that could have a significant effect on the service auditor's assurance report~~, and information about that event is not disclosed by the service organization, the service auditor shall disclose it in the service auditor's assurance report.
- ~~48~~44. The service auditor has no obligation to perform any procedures regarding the description of the service organization's system, or the suitability of design or operating effectiveness of controls after the date of the service auditor's assurance report.

Documentation

- ~~49~~45. The service auditor shall prepare documentation ~~so as~~that is sufficient to enable an experienced service auditor, having no previous connection with the engagement, to understand:
- (a) The nature, timing, and extent of the procedures performed to comply with this ISAE and applicable legal and regulatory requirements;
 - (b) The results of the procedures performed, and the evidence obtained; and
 - (c) Significant matters arising during the engagement, and the conclusions reached thereon and significant professional judgments made in reaching those conclusions.
- ~~50~~46. In documenting the nature, timing and extent of procedures performed, the service auditor shall record:
- (a) The identifying characteristics of the specific items or matters being tested;
 - (b) Who performed the procedures work and the date such ~~procedures were~~work was completed; and
 - (c) Who reviewed the work performed and the date and extent of such review.
- ~~51~~47. If the service auditor uses specific work of the internal auditors, the service auditor shall document the conclusions reached regarding the evaluation of the adequacy of the work of the internal auditors, and the procedures performed by the service auditor on that work.
- ~~48~~. The service auditor shall document discussions of significant matters with the service organization and others including the nature of the significant matters discussed and when and with whom the discussions took place.

- ~~5249~~. If the service auditor has identified information that is inconsistent with the service auditor's final conclusion regarding a significant matter, the service auditor shall document how the service auditor addressed the inconsistency ~~in forming the final conclusion~~.
- ~~5350~~. The service auditor shall assemble the documentation in an engagement file and complete the ~~assembly~~administrative process of assembling the final engagement file on a timely basis after the date of the service auditor's assurance report.¹²
- ~~5451~~. After the assembly of the final engagement file has been completed, the service auditor shall not delete or discard documentation before the end of its retention period. (Ref: Para. A43)
- ~~5552~~. If the service auditor finds it necessary to modify existing engagement documentation or add new documentation after the assembly of the final engagement file has been completed and that documentation does not affect the service auditor's report, the service auditor shall, regardless of the nature of the modifications or additions, document:
- (a) ~~When and by whom they were made, and (where applicable) reviewed;~~
 - ~~(b)~~ The specific reasons for making them; and
 - (e) ~~Their effect, if any, on the service auditor's conclusions.~~b) When and by whom they were made and reviewed;

¹² International Standard on Quality Control (ISQC) 1, paragraphs A54 and A55, provide further guidance.

Preparing the Service Auditor's Assurance Report

Content of the Service Auditor's Assurance Report

~~5653~~. The service auditor's assurance report shall include the following basic elements: (Ref: Para. ~~A27A44~~)

- (a) A title that clearly indicates the report is an independent service auditor's assurance report.
- (b) An addressee.
- (c) Identification of:
 - (i) The service organization's description of ~~the~~its system, and ~~management's~~the service organization's assertion, which includes the matters described in paragraph ~~9(j)~~10(k)(ii) for a ~~Type B~~type 2 report, or paragraph ~~9(i)~~10(j)(ii) for a ~~Type A~~type 1 report.
 - (ii) ~~If~~Those parts of the service organization's description of ~~the~~its system, if any, that are not covered by the service auditor's opinion, ~~an identification of those parts.~~
 - (iii) If the description refers to the need for complementary user entity controls, a statement that the service auditor has not evaluated the suitability of design or operating effectiveness of complementary user entity controls, and that the ~~stated~~ control objectives stated in the service organization'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 organization.
 - (iv) If services are performed by a subservice organization, ~~those services the nature of activities performed by the subservice organization as described in the service organization's description of its system~~ and whether the inclusive method or the carve-out method has been used in relation to them. Where the carve-out method has been used, a statement that the service organization's description of ~~the~~its system excludes the control objectives and related controls at relevant subservice organizations, and that the service auditor's procedures do not extend to controls at the subservice organization. Where the inclusive method has been used, a statement that the service organization's description of ~~the~~its system includes ~~the stated~~ control objectives and related controls at the subservice organization, and that the service auditor's procedures ~~included~~extended to controls at the subservice organization.
- (d) Identification of the criteria, and the party specifying the control objectives.
- (e) A statement ~~of the limitations of controls and, in the case of a Type B report, of the risk of projecting to future periods any evaluation of the effectiveness of controls.~~

- ~~(f) Identification of the purpose(s) and that the report and, in the case of a type 2 report, the description of tests of controls are intended users of the service auditor's assurance report. (Ref: Para. A28)~~
- ~~(g) A description of the service organization's and the service auditor's responsibilities, only for user entities and their auditors, who have a sufficient understanding to consider it, along with other information including a information about controls operated by user entities themselves, when assessing the risks of material misstatements of user entities' financial statements. (Ref: Para. A45)~~
- (f) A statement that the service organization is responsible for:
- (i) Preparing ~~and presenting~~ the description of ~~theits~~ system, and ~~the~~ accompanying assertion, including the completeness, accuracy and method of presentation of ~~the that~~ description and ~~that~~ assertion;
 - (ii) Providing the services covered by the service organization's description of ~~the~~ its system;
 - (iii) Stating the control objectives (where not identified by law or regulation, or another party, for example a user group or a professional body), ~~and the risks that threaten their achievement~~; and
 - (iv) Designing, ~~and~~ implementing ~~and maintaining~~ controls to achieve the ~~stated~~ control objectives stated in the service organization's description of its system.
- ~~(g) A statement that the service auditor's responsibility is to express an opinion on the service organization's description, on the design of controls related to the control objectives stated in that description and, in the case of a type 2 report, on the operating effectiveness of those controls, based on the service auditor's procedures.~~
- (h) A statement that the engagement was performed in accordance with ISAE 3402, "Assurance Reports on Controls at a ~~Third Party~~ Service Organization," which requires that the service auditor comply with ethical requirements and plan and perform procedures to obtain reasonable assurance whether, in all material respects, the service organization's description of its system is fairly presented and the controls are suitably designed and, in the case of a type 2 report, are operating effectively.
- (i) A summary of the service auditor's procedures to obtain reasonable assurance and a statement of the service auditor's belief that the evidence obtained is sufficient and appropriate to provide a basis for the service auditor's opinion, and, in the case of a ~~Type A~~ type 1 report, a statement that the service auditor has not performed any procedures regarding the operating effectiveness of controls and therefore no opinion is expressed thereon.
- (j) A statement of the limitations of controls and, in the case of a type 2 report, of the risk of projecting to future periods any evaluation of the operating effectiveness of controls.
- ~~(k) The service auditor's opinion, expressed in the positive form, on whether, in all material respects, based on suitable criteria:~~

- (i) In the case of a ~~Type-B~~type 2 report:
 - a. The description fairly presents the service organization's system that had been designed and implemented throughout the specified period;
 - b. The controls related to the control objectives stated in the service organization's description of its system were suitably designed throughout the specified period; and
 - c. The controls ~~the service auditor~~ tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the specified period.
- (ii) In the case of a ~~Type-A~~type 1 report:
 - a. The description fairly presents the service organization's system that had been designed and implemented as at the specified date; and
 - b. The controls related to the control objectives stated in the service organization's description of its system were suitably designed as at the specified date.
- (~~kl~~) The date of the service auditor's assurance report.
- (~~lm~~) The name of the service auditor, and the city/location in the jurisdiction where the service auditor ~~maintains the office that has responsibility for the engagement practices~~.
- ~~5754~~. In the case of a ~~Type-B~~type 2 report, the service auditor's assurance report shall include a separate section after the opinion, or an attachment, that describes the ~~service auditor's~~ tests of controls that were performed and the results ~~thereof~~of those tests. In describing the tests of controls, the service auditor shall clearly state which controls ~~have been tested and the period during which they~~ were tested, identify whether the items tested represent all or a selection of the items in the population, and indicate the nature of the tests in sufficient detail to enable user auditors to determine the effect of such tests on their risk assessments. If deviations have been identified, the service auditor shall include the extent of testing performed ~~by the service auditor~~ that led to identification of the deviations (including the sample size where sampling has been used), and the number and nature of ~~the~~ deviations noted. The service auditor shall report deviations even if, on the basis of tests performed, the service auditor has concluded that the related control objective ~~has been~~was achieved.
(Ref: Para. ~~A29~~A18 and A46)

Modified Opinions

~~58~~55. If the service auditor concludes that: (Ref: Para. ~~A30~~A47-A49)

- (a) ~~management's~~The service organization's description ~~of the system does~~ is not ~~presented~~present fairly in all material respects, the system as designed and implemented;
 - (b) ~~the~~The controls ~~are not suitably designed~~related to ~~provide reasonable assurance that the stated control objectives will be achieved if the controls operate effectively~~stated in the description were not suitably designed, in all material respects;
 - (c) ~~in~~In the case of a ~~Type B~~Type 2 report, the controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the service organization's description of its system were achieved, did not operate effectively ~~throughout the specified period, in all material respects~~; or
 - (d) ~~the~~The service auditor is unable to obtain sufficient appropriate evidence,
- the service auditor's opinion shall be modified, and the service auditor's assurance report shall contain a clear description of all the reasons for the modification.

Other Communication Responsibilities

~~59~~56. If the service auditor becomes aware of non-compliance with laws and regulations, fraud, or uncorrected errors attributable to the service organization that are not clearly trivial and may affect one or more user entities, the service auditor shall determine whether ~~this information~~the matter has been communicated appropriately to affected user entities. If the ~~information~~matter has not been so communicated and ~~management of~~ the service organization is unwilling to do so, the service auditor shall take appropriate action. (Ref: Para. ~~A34~~A50)

Application and Other Explanatory Material

Scope of this ISAE (Ref: Para. ~~9(d)~~3)

- A1. The ~~process referred~~service organization may not be able to in assert that the system is suitably designed when, for example, the system has been designed by a user entity or is stipulated in a contract between a user entity and the service organization. Because of the inextricable link between the suitable design of controls and their operating effectiveness,¹³ the absence of an assertion with respect to the suitability of design will likely preclude the service auditor from opining on the operating effectiveness of controls. As an alternative, the practitioner may choose to accept an agreed-upon procedures engagement to perform

¹³ The service auditor needs to be satisfied that controls have been suitably designed as a precondition to concluding, on the basis of testing whether controls are operating as designed, that those controls provide reasonable assurance that the control objectives have been met.

tests of controls, or a special purpose assurance engagement to conclude on whether, based on tests of controls, the controls have operated as described.

A2. An engagement performed in accordance with this ISAE to report on controls at a service organization that provides a service to user entities that is likely to be relevant to user entities' internal control as it relates to financial reporting may sometimes also include within its scope other controls that are closely related to the financial reporting controls (for example, controls related to regulatory compliance).

Definitions (Ref: Para. 10(d) and 10(g))

A3. The definition of "controls at the service organization" at paragraph 9(d) invariably includes aspects of user entities' information systems maintained by the service organization, and may also include aspects of one or more of the other components of internal control at a service organization. For example, it may include aspects of the service organization's control environment, monitoring, and control activities where when they relate to the services provided. It does not, however, include controls at a service organization that are not related to the achievement of the control objectives stated in the service organization's description of the its system, for example controls related to the preparation of the service organization's own financial statements.

A4. When the inclusive method is used, the requirements in this ISAE also apply to the services provided by the subservice organization, including obtaining agreement regarding the matters in paragraph 14(b)(i)-(v) as applied to the subservice organization rather than the service organization. This agreement may be obtained from the subservice organization, or from the service organization, for example, when the service organization's monitoring controls are sufficient to achieve the control objectives related to the subservice organization. Performing procedures at the subservice organization entails coordination and communication between the service organization, the subservice organization, and the service auditor. The inclusive method generally is feasible only if the service organization and the subservice organization are related, or if the contract between the service organization and the subservice organization provides for its use.

ISAE 3000 (Ref: Para. 11)

A5. ISAE 3000 includes a number of requirements that apply to all assurance engagements, including engagements in accordance with this ISAE. In some cases, this ISAE may include additional requirements or application material in relation to those topics.

Ethical Requirements (Ref: Para. ~~4~~12)

A2A6. The service auditor is subject to relevant independence requirements, which ordinarily comprise Parts A and B of the International Federation of Accountants' Code. However, in of Ethics for Professional Accountants (IFAC Code) together with national requirements that are more restrictive. In performing an engagement in accordance with this ISAE, the IFAC Code does not require the service auditor to be independent from each user entity.

Management and Those Charged with Governance (Ref: Para. 13)

A7 Management and governance structures vary by jurisdiction and by entity, reflecting influences such as different cultural and legal backgrounds, and size and ownership characteristics. Such diversity means that it is not possible for this ISAE to specify for all engagements the person(s) with whom the service auditor is to interact regarding particular matters. For example, the service organization may be a segment of a third party organization and not a separate legal entity. In such cases, identifying the appropriate management personnel or those charged with governance from whom to request written representations may require the exercise of professional judgment.

Acceptance and Continuance

Service Organization's Assertion (Ref: Para. 14(b)(i))

~~A3A8. Refusal, by a service organization, to provide a written assertion, subsequent to an agreement by the service auditor to accept, or continue, an engagement, represents a scope limitation that causes the service auditor to withdraw from the engagement. If law or regulation does not allow the service auditor to withdraw from the engagement, the service auditor disclaims an opinion. The requirements of paragraph 12 do not preclude a service auditor from using this ISAE where required by law or regulation to accept or continue an engagement, for example, in the public sector, if the service auditor's assurance report is modified appropriately and clearly indicates the reason that would otherwise have caused the service auditor to decline the engagement.~~

Reasonable Basis for Service Organization's Assertion (Ref: Para. 14(b)(ii))

A9. In the case of a type 2 report, the service organization's assertion includes a statement that the controls related to the control objectives stated in the service organization's description of its system operated effectively throughout the specified period. This assertion may be based on the service organization's monitoring activities. Monitoring of controls is a process to assess the effectiveness of controls over time. It involves assessing the effectiveness of controls on a timely basis, identifying and reporting deficiencies to appropriate individuals within the service organization, and taking necessary corrective actions. The service organization accomplishes monitoring of controls through ongoing activities, separate evaluations, or a combination of both. The greater the degree and effectiveness of ongoing monitoring activities, the less need for separate evaluations. [THIS TEXT MOVED FROM PARA A25] The written representations reconfirming the the service assertion about the effective operation of controls may be based on ongoing monitoring activities, separate evaluations, or a combination of the two. Ongoing monitoring activities are often built into the normal recurring activities of a service organization and include regular management and supervisory activities. Internal auditors or personnel performing similar functions may contribute to the monitoring of a service organization's activities. Monitoring activities may also include using information from communications from communicated by external parties, such as customer complaints and regulator comments, that-which may indicate problems or highlight areas in need of improvement. —A4The fact that the service auditor will report on the operating effectiveness of controls is not a substitute for the service organization's own processes to provide a reasonable basis for its assertion.

Identification of Risks (Ref: Para. 14(b)(iv))

A10. As noted in paragraph 10(c), control objectives relate to risks that controls seek to mitigate. For example, the risk that a transaction is recorded at the wrong amount or in the wrong period can be expressed as a control objective that transactions are recorded at the correct amount and in the correct period. The service organization is responsible for identifying the risks that threaten achievement of the control objectives stated in the description of its system. The service organization may have a formal or informal process for identifying relevant risks. A formal process may include estimating the significance of identified risks, assessing the likelihood of their occurrence, and deciding about actions to address them. However, since control objectives relate to risks that controls seek to mitigate, thoughtful identification of control objectives when designing and implementing the service organization's system may itself comprise an informal process for identifying relevant risks.

Acceptance of a Change in the Terms of the Engagement (Ref: Para. 15)

A11. A request to change the scope of the engagement may not have a reasonable justification when, for example, the request is made to:

- To exclude certain aspects of controls at the service organization control objectives from the scope of the engagement because of the likelihood that the service auditor's opinion would be modified with respect to those aspects; or the service organization will not provide the service auditor with a written assertion and the request is made to perform the engagement under ISAE 3000.
- ~~— To change the report from a Type B to a Type A because of the likelihood that the service auditor's opinion would be modified with respect to the operating effectiveness of controls.~~

A12. A request to change the scope of the engagement may have a reasonable justification when, for example, the request is made to exclude from the engagement a subservice organization when the service organization cannot arrange for access by the service auditor, and the method used for dealing with the services provided by that subservice organization is changed from the inclusive method to the carve-out method.

Assessing the Suitability of the Criteria (Ref: Para. ~~14-17~~16-19)

~~A5~~A13. Criteria need to be available to the intended users to allow them to understand the basis for the service organization's assertion about the fair presentation of its description of the system, the suitability of the design of controls and, in the case of a type 2 report, the operating effectiveness of the controls related to the control objectives.

A14. ISAE 3000 requires the service auditor, amongst other things, to assess the suitability of criteria, and the appropriateness of the subject matter.¹⁴ The subject matter is the underlying condition of interest to intended users of an assurance report. The following

¹⁴ ISAE 3000, paragraphs 18-19.

table identifies the subject matter and minimum criteria for each of the opinions in **Type B** and **Type A** type 2 and type 1 reports.

	<i>Subject matter</i>	<i>Criteria</i>	<i>Comment</i>	
Opinion about the fair presentation of the description of the service organization's system (Type A type 1 and Type B type 2 reports)	The <u>service organization's</u> system that is <u>likely to be</u> relevant to <u>services user entities'</u> internal control as it relates to financial reporting and is covered by the service auditor's assurance report.	The description is fairly presented if it: (a) presents how the service organization's system made available to user entities has been was designed and implemented to process relevant transactions including, as appropriate, the matters identified in paragraph 15 <u>17(a)-(i)-(viii); (b) in the case of a type 2 report, includes relevant details of changes to the service organization's system during the period covered by the description; and (b)-c)</u> does not omit or distort information relevant to the scope of the service organization's system being described, while acknowledging that the description is presented <u>prepared</u> to meet the common needs of a broad range of user entities and may not, therefore, include every aspect of the service organization's system that each individual user entity may consider important in its own particular environment ¹⁵ .	The specific wording of the criteria for this opinion may need to be tailored to be consistent with criteria established by, for example, law or regulation, user groups, or a professional body. Examples of criteria for this opinion are provided in the illustrative <u>service organization's</u> assertion in Appendix 1. Paragraphs A11-A14 <u>A21-A24</u> offer further guidance on determining whether these criteria are met. (In terms of the requirements of ISAE 3000, the subject matter information ¹⁵ for this opinion is the <u>service organization's</u> description of the <u>its</u> system and the service organization's assertion that the description is <u>fairly</u> presented fairly .)	
Opinion about suitability of design, and operating effectiveness (Type B type 2)	The <u>suitability of the</u> design and operating effectiveness of those controls that are necessary to achieve the stated	The controls are suitably designed and operating effectively if: (a) the <u>service organization has identified the</u> risks that threaten achievement of the control objectives stated in the description have been identified of its system ; (b) the	When the criteria for this opinion are met, controls will have provided reasonable assurance that the related control objectives were	The control objectives, which are stated in the <u>service organization's</u> description <u>of its system</u> , are part of the criteria for these opinions. The stated

¹⁵ The “subject matter information” is the outcome of the evaluation or measurement of the subject matter that results from applying the criteria to the subject matter.

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	<i>Subject matter</i>	<i>Criteria</i>	<i>Comment</i>	
<i>reports)</i>	control objectives relevant to services covered by stated in the service auditor's assurance report organization's description of its system.	controls identified controls in that description would, if operated as described, provide reasonable assurance that those risks do not prevent the stated control objectives from being achieved; and (c) these the controls necessary for achieving the relevant control objectives were consistently applied as designed throughout the specified period. This includes whether manual controls were applied by individuals who have the appropriate competence and authority.	achieved throughout the specified period. (In terms of the requirements of ISAE 3000, the subject matter information for this opinion is the service organization's assertion that controls are suitably designed and that they are operating effectively.)	control objectives will differ from engagement to engagement. If, as part of forming the opinion on the description, the service auditor concludes the stated control objectives are not fairly presented then those control objectives would not be suitable as part of the criteria for forming an opinion on either the design or operating effectiveness of controls.
<i>Opinion about suitability of design (Type A reports)</i> <i>Opinion about suitability of design (type I reports)</i>	The suitability of the design of those controls that are necessary to achieve the stated control objectives relevant to services covered by stated in the service auditor's assurance report organization's description of its system.	The controls are suitably designed if: (a) the service organization has identified the risks that threaten achievement of the control objectives stated in the description have been identified of its system; and (b) the controls identified controls in that description would, if operated as described, provide reasonable assurance that those risks do not prevent the stated control objectives from being achieved.	Meeting this criterion these criteria does not, of itself, provide any assurance that the related control objectives were achieved because no assurance has been obtained about the operation of controls. (In terms of the requirements of ISAE 3000, the subject matter information for this opinion is the service organization's assertion that controls are suitably designed.)	

A15. Paragraph 17(a) identifies a number of elements that are included in the service organization's description of its system as appropriate. These elements may not be appropriate if the system being described is not a system that processes transactions, for example, if the system relates to general controls over the hosting of an IT application but not the controls embedded in the application itself.

Materiality (Ref: Para. ~~48~~20)

- ~~A6~~A16. In an engagement to report on controls at a service organization, the concept of materiality relates to the information system being reported on, not the financial statements of user entities. The service auditor plans and performs procedures to determine whether the service organization's description of ~~the its~~ system is fairly ~~stated~~presented in all material respects, whether controls at the service organization are suitably designed in all material respects and, in the case of a ~~Type B~~type 2 report, whether controls at the service organization are operating effectively in all material respects. ~~In applying the~~The concept of materiality, ~~the service auditor considers~~ takes into account that the service auditor's assurance report provides information about the service organization's system to meet the common information needs of a broad range of user entities and their auditors who have an understanding of the manner in which ~~the that~~ system ~~is being~~has been used ~~in a particular user entity for financial reporting by that user entity.~~
- A17. Materiality with respect to the fair presentation of the service organization's description of its system, and with respect to the design of controls, includes primarily the consideration of qualitative factors, ~~for.~~ For example, ~~;~~ whether the description includes the significant aspects of processing significant transactions, ~~;~~ whether the description omits or distorts relevant information, ~~;~~ and the ability of controls, as designed, to provide reasonable assurance that ~~the stated~~ control objectives would be achieved. Materiality with respect to the service auditor's opinion on the operating effectiveness of controls includes the consideration of both quantitative and qualitative factors, for example, the tolerable rate and observed rate of deviation (a quantitative matter), and the nature and cause of any observed deviation (a qualitative matter).
- A18. The concept of materiality is not applied when disclosing, in the description of the tests of controls, the results of those tests where deviations have been identified. This is because, in the particular circumstances of a specific user entity or user auditor, a deviation may have significance beyond whether or not, in the opinion of the service auditor, it prevents a control from operating effectively. For example, the control to which the deviation relates may be particularly significant in preventing a certain type of error that may be material in the particular circumstances of a user entity's financial statements.

Obtaining an Understanding of the Service Organization's System (Ref: Para. ~~3221~~)

~~A9~~A19. Obtaining an understanding of the service organization's system, including controls, included in the scope of the engagement, assists the service auditor in:

- Identifying the boundaries of ~~the-that~~ system, and how it interfaces with other systems.
- Assessing whether the service organization's description fairly presents the system that has been designed and implemented.
- ~~Determining~~ which controls are necessary to achieve the ~~stated~~ control objectives ~~included~~stated in the ~~scope~~service organization's description of ~~the engagement, and its system~~.
- ~~Assessing~~ whether controls were suitably designed, ~~and~~.
- Assessing, in the case of a ~~Type B~~type 2 report, whether controls were operating effectively.

~~A10~~. ~~Procedures~~

A20. The service auditor's procedures to obtain this understanding may include:

- Inquiring of ~~management and of others~~those within the service organization who, in the service auditor's judgment, may have relevant information.
- Observing operations and inspecting documents, reports, printed and electronic records of transaction processing.
- Inspecting a selection of agreements between the service organization and user entities to identify their common terms.
- Reperforming control procedures.

Obtaining Evidence Regarding the Description (Ref: Para. ~~3322-24~~)

~~A11~~A21. Considering the following questions may assist the service auditor in determining whether those aspects of the description included in the scope of the engagement are fairly ~~stated~~presented in all material respects:

- Does the description address the major aspects of the service provided (within the scope of the engagement) that could reasonably be expected to be relevant to the common needs of a broad range of user auditors in planning their audits of user entities' financial statements?
- Is the description ~~presented~~prepared at a level of detail that could reasonably be expected to provide a broad range of user auditors with sufficient information to obtain an understanding of internal control in accordance with ISA 315 ~~(Redrafted)~~?¹⁶ The description need not address every aspect of the service

¹⁶ ISA 315, "Identifying and Assessing Risks of Material Misstatement through Understanding the Entity and Its Environment."

organization's processing or the services provided to user entities, and need not be so detailed as to potentially allow a reader to compromise security or other controls at the service organization.

- Is the description prepared ~~and presented~~ in a manner that does not omit or distort information that may affect the common needs of a broad range of user auditors' decisions, for example, does the description contain any significant omissions or inaccuracies in processing of which the service auditor is aware?
- Where some of the control objectives stated in the service organization's description of its system have been excluded from the scope of the engagement, does the description clearly identify the excluded objectives?
- Have the controls identified in the description ~~actually~~ been implemented?
- Are complementary user entity controls, if any, described adequately ~~described~~? In most cases, the description of control objectives is worded such that the control objectives are capable of being achieved through effective operation of controls implemented by the service organization alone. In some cases, however, the control objectives stated in the ~~descriptions~~ service organization's description of its system cannot be achieved by the service organization alone because their achievement requires particular controls to be implemented by user entities. This may be the case where, for example, the control objectives are specified by a regulatory authority. When the description does include complementary user entity controls, the description separately identifies those controls along with the specific control objectives that cannot be achieved by the service organization alone.
- ~~[THIS WAS PREVIOUSLY PARA A14]~~ If the inclusive method has been used, ~~it is important that~~ does the description ~~adequately differentiates between~~ separately identify controls at the service organization and controls at the subservice organization. ~~?~~ If the carve-out method is used, ~~it is important that~~ does the description ~~identifies~~ identify the functions that are performed by the subservice organization, ~~but it?~~ When the carve-out method is used, the description need not describe the detailed processing or controls at the subservice organization.

A12A22. The service auditor's procedures to evaluate the fair presentation of the description may include:

- Considering the nature of user entities and how the services provided by the service organization are likely to affect them, for example, ~~the predominant type(s) of user entities, and~~ whether user entities are from a particular industry and whether they are regulated by government agencies.
- Reading standard contracts, or standard terms of contracts, (if applicable) with user entities to gain an understanding of the service organization's contractual obligations.
- Observing procedures performed by service organization personnel.

- Reviewing the service organization's policy and procedure manuals and other systems documentation, for example, flowcharts and narratives.

~~A13.~~A23. Paragraph ~~33~~22(a) requires the service auditor to evaluate whether the ~~stated~~ control objectives stated in the service organization's description of its system are reasonable in the circumstances. Considering the following questions may assist the service auditor in this evaluation:

- Have the stated control objectives been designated by the service organization or by outside parties such as a regulatory authorities authority, a user group, or a professional body ~~or others?~~that follows a transparent due process?
- Where the stated control objectives have been specified by ~~management~~the service organization, do they relate to the types of assertions commonly embodied in the broad range of user entities' financial statements to which controls at the service organization could reasonably be expected to relate? Although the service auditor ordinarily will not be able to determine how controls at a service organization specifically relate to the assertions embodied in individual user entities' financial statements, the service auditor's understanding of the nature of the service organization's system, including controls, and services being provided is used to identify the types of assertions to which those controls are likely to relate.
- Where the stated control objectives have been specified by ~~management~~the service organization, are they complete? ~~A—While a~~ complete set of control objectives can provide a broad range of user auditors with a framework to assess the effect of controls at the service organization on the assertions commonly embodied in user entities' financial statements. the service auditor ordinarily will not be able to determine how controls at a service organization specifically relate to the assertions embodied in individual user entities' financial statements and cannot, therefore, determine whether control objectives are complete from the viewpoint of individual user entities or user auditors. It is the responsibility of individual user entities or user auditors to assess whether the service organization's description addresses the particular control objectives that are relevant to their needs.

~~A14. — [TEXT MOVED TO BE THE LAST BULLET OF PARA A21]~~

A24. The service auditor's procedures to determine whether the service organization's system has been implemented may be similar to, and performed in conjunction with, procedures to obtain an understanding of that system. They may also include tracing items through the service organization's system and, in the case of a type 2 report, specific inquiries about changes in controls that were implemented during the period. Changes that are significant to user entities or their auditors are included in the description of the service organization's system.

Obtaining Evidence Regarding ~~the~~ Design of Controls (Ref: Para. ~~35~~24 and 29(b))

- A15A25.** From the viewpoint of a *user entity or a user auditor*, a control is suitably designed if, individually or in combination with other controls, it would, when complied with satisfactorily, provide reasonable assurance that material misstatements, ~~whether due to fraud or error~~, are prevented, or detected and corrected. A *service organization or a service auditor*, however, is not aware of the circumstances at individual user entities that would determine whether or not a misstatement resulting from a control deviation is material to those user entities. Therefore, from the viewpoint of a service auditor, a control is suitably designed if, individually or in combination with other controls, it would, when complied with satisfactorily, provide reasonable assurance that ~~stated control objectives~~ control objectives stated in the service organization's description of its system are achieved.
- A16A26.** A service auditor may consider using flowcharts, questionnaires, or decision tables to facilitate understanding the design of the controls.
- A17A27.** Controls may consist of a number of ~~integrated~~ activities directed at the achievement of ~~various~~ control objectives. Consequently, ~~whereif~~ the service auditor evaluates certain activities as being ineffective in achieving a particular control objective, the existence of other activities, ~~sometimes known as compensating controls~~, may ~~nonetheless~~ allow the service auditor to conclude that controls related to the ~~stated~~ control objective are suitably designed.

Obtaining Evidence Regarding ~~the~~Operating Effectiveness of Controls

Assessing Operating Effectiveness (Ref: Para. ~~36~~25)

- A18A28.** From the viewpoint of a *user entity or a user auditor*, a control is operating effectively if, individually or in combination with other controls, it provides reasonable assurance that material misstatements, whether due to fraud or error, are prevented, or detected and corrected. A *service organization or a service auditor*, however, is not aware of the circumstances at individual user entities that would determine whether ~~or not~~ a misstatement resulting from a control deviation had occurred and, if so, whether it is material. Therefore, from the viewpoint of a service auditor, a control is operating effectively if, individually or in combination with other controls, it provides reasonable assurance that ~~stated~~ control objectives stated in the service organization's description of its system are achieved. Similarly, a service organization or a service auditor is not in a position to determine whether any observed control deviation would result in a material misstatement from the viewpoint of an individual user entity.
- A19A29.** Obtaining an understanding of controls sufficient to opine on the suitability of their design is not sufficient evidence regarding their operating effectiveness, unless there is some automation that provides for the consistent operation of the controls as they were designed and implemented. For example, obtaining information about the implementation of a manual control at a point in time does not provide evidence about operation of the control at other times. However, because of the inherent consistency of IT processing, performing procedures to determine the design of an automated control, and whether it has been implemented, may serve as evidence of that control's operating

effectiveness, depending on the service auditor's assessment and testing of other controls, such as those over program changes.

~~A20~~A30. To be useful to user auditors, a ~~Type B~~type 2 report ordinarily covers a minimum period of six months. If the period is less than six months, the service auditor may consider it appropriate to describe the reasons for the shorter period in the service auditor's assurance report. Circumstances that may result in a report covering a period of less than six months include when (a) the service auditor is engaged close to the date by which the report on controls is to be issued; (b) the service organization (or a particular system or application) has been in operation for less than six months; or (c) significant changes have been made to the controls and it is not practicable either to wait six months before issuing a report or to issue a report covering the system both before and after the changes.

~~A21~~A31. Certain control procedures may not leave evidence of their operation that can be tested at a later date and accordingly, the service auditor may find it ~~appropriate~~necessary to test the operating effectiveness of such control procedures at various times throughout the reporting period.

~~A22. Evidence from prior engagements about the satisfactory operation of controls in prior periods cannot provide a basis for a reduction in testing, even if it is supplemented with evidence obtained during the current period. This is because the~~A32. The service auditor provides an opinion on the operating effectiveness of controls throughout each period, therefore, sufficient appropriate evidence about the operation of controls during the current period is required for the service auditor to express that opinion. —
—Knowledge of deviations observed in prior engagements may, however, lead the service auditor to increase the extent of testing during the current period.

Testing of Indirect Controls (Ref: Para. 26(b))

~~A33~~ In some circumstances, it may be necessary to obtain evidence supporting the effective operation of indirect controls. For example, when the service auditor decides to test the effectiveness of a review of exception reports detailing sales in excess of authorized credit limits, the review and related follow up is the control that is directly of relevance to the service auditor. Controls over the accuracy of the information in the reports (for example, the general IT controls) are described as “indirect” controls.

~~A34. Because of the inherent consistency of IT processing, evidence about the implementation of an automated application control, when considered in combination with evidence about the operating effectiveness of the service organization's general controls (in particular, change controls), may also provide substantial evidence about its operating effectiveness.~~

Means of Selecting Items for Testing (Ref: Para. ~~3726~~(c) and ~~3928~~)

~~A23~~A35. The means of selecting items for testing available to the service auditor are:

- (a) Selecting all items (100% examination). This may be appropriate for testing controls that are applied infrequently, for example, quarterly, or when evidence regarding application of the control makes 100% examination efficient;
- (b) Selecting specific items. This may be appropriate where 100% examination would not be efficient and ~~attribute~~-sampling would not be effective, such as testing controls that ~~enforce segregation of duties, or testing controls that~~ are not applied sufficiently frequently to render a large population for ~~attribute~~-sampling, for example, controls that are applied monthly or weekly; and
- ~~(e) Attribute sampling.~~ (c) Sampling. This may be appropriate for testing controls that are applied frequently in a uniform manner and which leave documentary evidence of their application.

~~A24A36.~~ While selective examination of specific items will often be an efficient means of obtaining evidence, it does not constitute ~~attribute~~-sampling. The results of procedures applied to items selected in this way cannot be projected to the entire population; accordingly, selective examination of specific items does not provide evidence concerning the remainder of the population. ~~Attribute sampling~~Sampling, on the other hand, is designed to enable conclusions to be drawn about an entire population on the basis of testing a sample drawn from it.

Using the The Work of an Internal Audit Function

Obtaining an Understanding of the Internal Audit Function (Ref: Para. ~~49~~31)

~~A7A37.~~ An internal audit function may be responsible for providing analyses, evaluations, assurances, recommendations, and other information to management and those charged with governance. An internal audit function at a service organization may perform activities related to the service organization's own system of internal control, or activities related to the services and systems, including controls, that the service organization is providing to user entities.

~~A8.—The scope and objectives of an internal audit function vary widely and depend on the size and structure of the service organization and the requirements of management and those charged with governance. Internal audit function activities may include one or more of the following:~~

- ~~• Monitoring of the service organization's internal control or the application processing systems, including controls, provided to user entities. The internal audit function may be assigned specific responsibility for reviewing controls, monitoring their operation and recommending improvements thereto.~~
- ~~• Examination of financial and operating information. The internal audit function may be assigned to review the means used to identify, measure, classify and report financial and operating information, and specific inquiry and other procedures into individual items including detailed testing of transactions, balances and procedures.~~

- ~~Evaluation of the economy, efficiency and effectiveness of operating activities including non-financial activities of a service organization.~~
- ~~Evaluation of compliance with laws, regulations and other external requirements, and with management policies and directives and other internal requirements.~~

Determining Whether and to What Extent to Use the Work of the Internal Auditors (Ref: Para. 34)

A38. In determining the planned effect of the work of the internal auditors on the nature, timing or extent of the service auditor's procedures, the following factors may suggest the need for different or less extensive procedures than would otherwise be the case:

- The nature and scope of specific work performed, or to be performed, by the internal auditors is quite limited.
- The work of the internal auditors relates to controls that are less significant to the service auditor's conclusions.
- The work performed, or to be performed, by the internal auditors does not require subjective or complex judgments.

Using the Work of the Internal Audit Function (Ref: Para. 35)

A39. The nature, timing and extent of the service auditor's procedures on specific work of the internal auditors will depend on the service auditor's assessment of the significance of that work to the service auditor's conclusions, the evaluation of the internal audit function, and the evaluation of the specific work of the internal auditors. Such procedures may include:

- Examination of items already examined by the internal auditors;
- Examination of other similar items; and
- Observation of procedures performed by the internal auditors.

Effect on the Service Auditor's Assurance Report (Ref: Para. 37)

A40. ~~[THE FOLLOWING TEXT MOVED FROM THE REQUIREMENTS SECTION WITHOUT MARK-UP] Irrespective of the Notwithstanding its~~ degree of autonomy and objectivity, of the internal audit function, such function is not independent of the service organization as is required of the service auditor when performing the engagement. The service auditor has sole responsibility for the opinion expressed in the service auditor's assurance report, and, accordingly, that responsibility is not reduced by the service auditor's use of the work of the internal auditor ors-function.

Written Representations (Ref: Para. ~~42~~38)

A25. ~~[THE TEXT OF THIS PARA MOVED TO PARA A3.1]~~

A~~41~~26. The written representations required by paragraph 42-38 are separate from, and in addition to, the service organization's assertion contained in the service organization's report on controls, as defined at described in paragraph 910(jo). (ii) for a Type B report, and paragraph 9(i)(ii) for a Type A report.

Other Information (Ref: Para. 42)

A42. The IFAC Code requires that a service auditor not be associated with information where the service auditor believes that the information:

- (a) Contains a materially false or misleading statement;
- (b) Contains statements or information furnished recklessly; or
- (c) Omits or obscures information required to be included where such omission or obscurity would be misleading.¹⁷

If other information included in a document containing the service organization's description of its system and the service auditor's assurance report contains future-oriented information such as recovery or contingency plans, or plans for modifications to the system that will address deviations identified in the service auditor's assurance report, or claims of a promotional nature that cannot be reasonably substantiated, the service auditor may request that information be removed or restated.

Documentation (Ref: Para. 51)

A43. ISQC 1 (or national requirements that are at least as demanding) requires firms to establish policies and procedures for the timely completion of the assembly of engagement files.¹⁸ An appropriate time limit within which to complete the assembly of the final engagement file is ordinarily not more than 60 days after the date of the service auditor's report.¹⁹

¹⁷ The IFAC Code, paragraph 110.2.

¹⁸ ISQC 1, paragraph 45.

¹⁹ ISQC 1, paragraph A54.

Preparing the Service Auditor's Assurance Report

Content of the Service Auditor's Assurance Report (Ref: Para. 53)

- A44. Illustrative examples of service auditors' assurance reports and related service organizations' ~~management~~ assertions are contained in Appendices 1 and 2.

Intended Users and Purposes of the Service Auditor's Assurance Report (Ref: Para. 53(e))

- A45. ~~ISAE 3000 requires that when the criteria used to evaluate or measure the subject matter are available only to specific intended users, or are relevant only to a specific purpose, the assurance report includes a statement restricting the use of the assurance report to those intended users or that purpose.²⁰~~ The criteria used for engagements to report on controls at a service organization are relevant only for the purposes of providing information about the service organization's system, including controls, to those who have an understanding of how the system is has been used for financial reporting by user entities, ~~and A~~ accordingly this is stated in the service auditor's assurance report, ~~states that it is intended only for use by existing users and their financial statement auditors. In addition, the service auditor may consider it appropriate to include wording that specifically restricts distribution of the assurance report other than to intended users, its use by others, or its use for other purposes.~~

Description of the ~~Service Auditor's~~ Tests of Controls (Ref: Para. ~~57~~54)

- ~~A29~~A46. In describing the nature of the ~~service auditor's~~ tests of controls for a ~~Type B~~type 2 report, it assists readers ~~if the service auditor's assurance report defines the types of tests performed. It also assists readers~~ of the service auditor's assurance report if the service auditor includes:
- ~~a.●~~ The results of all tests where deviations have been identified, even if ~~compensating other~~ controls have been identified that allow the service auditor to conclude that the relevant control objective has been achieved or the control tested has subsequently been removed from the service organization's description of ~~the its~~ system.
 - ~~b.●~~ Information about causative factors for identified deviations, to the extent the service auditor has identified such factors.

²⁰ ISAE 3000, paragraph 49(f).

Modified Opinions (Ref: Para. ~~58~~55)

~~A30~~A47. Illustrative examples of elements of modified service auditor's assurance reports are contained in **Appendix 3**.

A48. Even if the service auditor has expressed an adverse opinion or disclaimed opinion, it may be appropriate to describe in the basis for modification paragraph the reasons for any other matters of which the service auditor is aware that would have required a modification to the opinion, and the effects thereof.

A49. When expressing a disclaimed opinion because of a scope limitation, it is not ordinarily appropriate to identify the procedures that were performed nor include statements describing the characteristics of a service auditor's engagement; to do so might overshadow the disclaimed opinion.

Other Communication Responsibilities (Ref: Para. ~~56~~69)

• A50.

~~A31. — Appropriate actions to respond to the circumstances identified in paragraph 56 when the service auditor becomes aware of non-compliance with laws and regulations, or uncorrected error that has not been communicated appropriately to affected user entities, and management of the service organization is unwilling to do so, may include:~~

- Obtaining legal advice about the consequences of different courses of action.
- Communicating with those charged with governance of the service organization.
- Communicating with third parties (for example, a regulator) when required to do so.
- Modifying the service auditor's opinion, or adding an other matters paragraph.
- Withdrawing from the engagement.

Appendix 1

(Ref. Para. ~~A27~~A44)

Example ~~Management~~Service Organization's Assertions

The following ~~example management~~examples of service organization's assertions are for guidance only and are not intended to be exhaustive or applicable to all situations.

Example 1: Type ~~B2~~ Service Organization's Assertion ~~for~~

Assertion by the Service Organization

Management's Assertion

~~We have~~The accompanying description has been prepared ~~the accompanying description~~ for ~~existing~~ customers ~~of our who have used~~ [the type or name of] system and their auditors who have a sufficient understanding to consider ~~the description~~, along with other information including information about controls operated by customers themselves, when assessing the risks of material misstatements of customers' financial statements. ~~We confirm~~[Entity's name] confirms that:

- (a) The accompanying description at pages ~~[bb-cc]~~ of the system fairly presents [the type or name of] system ~~made available to existing customers~~ for processing ~~their~~customers' transactions throughout the period [date] to [date]. The criteria ~~we~~ used in making this assertion were that the accompanying description:
- (i) Presents how the system ~~made available to existing customers has been~~ was designed and implemented ~~to process relevant transactions~~, including:
- ~~The~~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 ~~are~~ were initiated, recorded, processed, corrected as necessary, and transferred to the reports ~~presented to existing~~ prepared for customers.
 - The related accounting records, supporting information and specific accounts that ~~are~~ were used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information ~~is~~ was transferred to the reports ~~presented to existing~~ prepared for customers.
 - How the system ~~captures~~ dealt with significant events and conditions, other than transactions.
 - The process used to prepare reports ~~presented to existing~~ for customers.
 - ~~The stated~~ Relevant control objectives and controls designed to achieve those objectives.
 - Controls that we assumed, in the design of the system, would be implemented by user entities, and which, if necessary to achieve control objectives stated in the

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

- Other aspects of our control environment, risk assessment process, information system (including the related business processes) and communication, control activities and monitoring controls that ~~are~~were relevant to processing and reporting ~~existing~~ customers' transactions.
- (ii) Includes relevant details of changes to the service organization's 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 ~~presented~~prepared to meet the common needs of a broad range of ~~existing~~ customers and their auditors and may not, therefore, include every aspect of the system that each individual customer may consider important in its own particular environment.
- (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 ~~we~~ used in making this assertion were that:
 - (i) The risks that ~~threaten~~threatened achievement of the control objectives stated in the description ~~have been~~were identified;
 - (ii) The identified controls would, if operated as described, provide reasonable assurance that those risks ~~did~~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].

[Management (or Those Charged With Governance)]

Example 2: Type A1 Service Organization's Assertion ~~for Service Organization~~

Management's Assertion

~~We have prepared the~~The accompanying description has been prepared for ~~existing~~ customers ~~of our who have used~~ [the type or name of] system and their auditors who have a sufficient understanding to consider ~~it~~the description, along with other information including information about controls operated by customers themselves, when obtaining an understanding of customers' information systems relevant to financial reporting. ~~We confirm~~[Entity's name] confirms that:

- (a) The accompanying description at pages [bb-cc] ~~of the system~~ fairly presents [the type or name of] system ~~made available to existing customers~~ for processing ~~their~~customers' transactions as at [date]. The criteria ~~we~~ used in making this assertion were that the accompanying description:
 - (i) Presents how the system ~~made available to existing customers~~ ~~has been~~was designed and implemented ~~to process relevant transactions~~, including:

- ~~The~~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 ~~are~~were initiated, recorded, processed, corrected as necessary, and transferred to the reports ~~presented to existing~~prepared for customers.
 - The related accounting records, supporting information and specific accounts that ~~are~~were used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the reports ~~presented to existing~~prepared customers.
 - How the system ~~captures~~dealt with significant events and conditions, other than transactions.
 - The process used to prepare reports ~~presented to existing~~for customers.
 - ~~The stated~~Relevant control objectives and controls designed to achieve those objectives.
 - Controls that we assumed, in the design of the system, would be implemented by user entities, and which, if necessary to achieve stated control objectives stated in the accompanying description, are identified in the description along with the specific control objectives that cannot be achieved by ourselves alone.
 - Other aspects of our control environment, risk assessment process, information system (including the related business processes) and communication, control activities and monitoring controls that ~~are~~were relevant to processing and reporting ~~existing~~ customers' transactions.
- (ii) Does not omit or distort information relevant to the scope of the system being described, while acknowledging that the description is ~~presented~~prepared to meet the common needs of a broad range of ~~existing~~ customers and their auditors and may not, therefore, include every aspect of the system that each individual customer may consider important in its own particular environment.
- (b) The controls related to the control objectives stated in the accompanying description were suitably designed as at *[date]*. The criteria ~~we~~ used in making this assertion were that:
- (i) The risks that ~~threaten~~threatened achievement of the control objectives stated in the description ~~have been~~were identified; and
 - (ii) The identified controls would, if operated as described, provide reasonable assurance that those risks ~~did~~did not prevent the stated control objectives from being achieved.

~~*[Management (or Those Charged With Governance)]*~~

Appendix 2

(Ref. Para. ~~A27~~A44)

Example Service Auditor's Assurance Reports

The following examples of reports are for guidance only and are not intended to be exhaustive or applicable to all situations.

Example 1: Type ~~B2~~ Service Auditor's Assurance Report

Independent Service Auditor's Assurance Report on the Description of Controls, their Design and Effective Operation

To: XYZ Service Organization

Scope

We have been engaged to report on XYZ Service Organization's description at pages [bb-cc] of ~~the~~ its [type or name of] system ~~made available to customers~~ for processing ~~their~~ customers' transactions throughout the period [date] to [date] (the description), and on the design and operation of controls related to the control objectives stated in the description.²¹

~~Management's~~XYZ Service Organization's Responsibilities

~~Management of~~ XYZ Service Organization is responsible for: preparing ~~and presenting~~ the description and accompanying assertion at page [aa], including the completeness, accuracy and method of presentation of the description and assertion; providing the services covered by the description; stating the control objectives ~~and identifying the risks that threaten their achievement~~; and designing, implementing and ~~maintaining~~ effectively operating controls to achieve the stated control objectives.

Service Auditor's Responsibilities

Our responsibility is to express an opinion on ~~the~~ XYZ Service Organization'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 International Standard on Assurance Engagements 3402, "Assurance Reports on Controls at a ~~Third-Party~~ Service Organization" issued by the International Auditing and Assurance Standards Board. That standard requires that we comply with ethical requirements; and plan and perform our procedures to obtain reasonable assurance 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 effective operation of controls at a service organization involves performing procedures to obtain evidence about the disclosures in the

²¹ If some elements of the description are not included in the scope of the engagement, this is made clear in the assurance report.

service organization's description of ~~the~~its system, and the design and effective operation of controls. The procedures selected depend on the service auditor's judgment, including the assessment of the risks that the description is not fairly presented, and that controls are not suitably designed or operating effectively, ~~whether due to fraud or error~~. 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 ~~objectives stated therein~~criteria specified by the service organization and described at page [aa].

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

Limitations of Internal Controls at a Service Organization

XYZ Service Organization's description is prepared to meet the common needs of a broad range of customers and their auditors and may not, therefore, include every aspect of the system that each individual customer may consider important in its own particular environment. Also, -bBecause of their nature, controls at a service organization 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 organization 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 ~~were~~are those described ~~in management's assertion~~ at page [aa]. In our opinion, in all material respects:

- (a) The description fairly presents the [the type or name of] system ~~that had been~~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 ~~we~~ 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 ~~that were~~ tested and the nature, timing and results of those tests are listed on pages [yy-zz].

Intended Users and Purpose

This report and the description of tests of controls on pages [yy-zz] are intended only for ~~existing~~ customers ~~of~~who have used XYZ Service Organization's [type or name of] system, and their auditors, who have a sufficient understanding to consider it, along with other information including information about controls operated by customers themselves, when assessing the risks of material misstatements of customers' financial statements.

[Service auditor's signature]

[Date of the service auditor's assurance report]

[Service auditor's address]

Example 2: Type **A1** Service Auditor's Assurance Report

Independent Service Auditor's Assurance Report on the Description of Controls and their Design

To: XYZ Service Organization

Scope

We have been engaged to report on XYZ Service Organization's description at pages [bb-cc] of ~~the~~ its [type or name of] system ~~made available to customers~~ for processing ~~their~~ customers' transactions as at [date] (the description), and on the design of controls related to the control objectives stated in the description.²²

~~Management's~~ We did not perform any procedures regarding the operating effectiveness of controls included in the description, and accordingly do not express an opinion thereon.

XYZ Service Organization's Responsibilities

~~Management of~~ XYZ Service Organization is responsible for: preparing ~~and presenting~~ the description and accompanying assertion at page [aa], including the completeness, accuracy and method of presentation of the description and the assertion; providing the services covered by the description; stating the control objectives ~~and identifying the risks that threaten their achievement;~~ and designing, implementing and ~~maintaining~~ effectively operating controls to achieve the stated control objectives.

Service Auditor's Responsibilities

Our responsibility is to express an opinion on ~~the~~ XYZ Service Organization's description, and on the design of controls related to the control objectives stated in that description, based on our procedures. We conducted our engagement in accordance with International Standard on Assurance Engagements 3402, "Assurance Reports on Controls at a ~~Third Party~~ Service Organization" issued by the International Auditing and Assurance Standards Board. That standard requires that we comply with ethical requirements; and plan and perform our procedures to obtain reasonable assurance whether, in all material respects, the description is fairly presented and the controls are suitably designed in all material respects.

An assurance engagement to report on the description and design of controls at a service organization involves performing procedures to obtain evidence about the disclosures in the service organization's description of ~~the~~ its system, and the design of controls. The procedures selected depend on the service auditor's judgment, including the assessment that the description is not fairly presented, and that controls are not ~~suitable~~ suitably designed, ~~whether due to fraud or error~~. An assurance engagement of this type also includes evaluating the overall presentation of the description, the suitability of the control objectives stated therein, and the suitability of the ~~objectives stated therein~~ criteria specified by the service organization and described at page [aa].

²² If some elements of the description are not included in the scope of the engagement, this is made clear in the assurance report.

~~We~~As noted above, we did not perform any procedures regarding the operating effectiveness of controls included in the description, and accordingly do not express an opinion thereon.

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

Limitations of Internal Controls at a Service Organization

XYZ Service Organization's description is prepared to meet the common needs of a broad range of customers and their auditors and may not, therefore, include every aspect of the system that each individual customer may consider important in its own particular environment. Also, b~~B~~ecause of their nature, controls at a service organization may not prevent or detect all errors or omissions in processing or reporting transactions.

Opinion

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

- (a) The description fairly presents the [the type or name of] system ~~that had been as~~ designed and implemented as at [date], and
- (b) The controls related to the control objectives stated in the description were suitably designed as at [date].

Intended Users and Purpose

This report is intended only for ~~existing~~ customers ~~of~~who have used XYZ Service Organization's [type or name of] system, and their auditors, who have a sufficient understanding to consider it, along with other information including information about controls operated by customers themselves, when obtaining an understanding of customers' information systems relevant to financial reporting.

[Service auditor's signature]

[Date of the service auditor's assurance report]

[Service auditor's address]

Appendix 3

(Ref. Para. ~~A30~~A47)

Example Modified Service Auditor's Assurance Reports

The following examples of modified reports are for guidance only and are not intended to be exhaustive or applicable to all situations. They are based on the examples of reports in Appendix 2.

Example 1: Qualified opinion – ~~management's~~the service organization's description of the system is not fairly presented ~~fairly~~ in all material respects

...

Service Auditor's Responsibilities

...

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

Basis for Qualified Opinion

The accompanying description states at page [mn] that XYZ Service Organization uses operator identification numbers and passwords to prevent unauthorized access to the system. Based on our procedures, which included inquiries of staff personnel and observation of activities, we have determined that operator identification numbers and passwords are employed in Applications A and B but not in Applications C and D.

Qualified Opinion

Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion were those described in ~~management's~~XYZ Service Organization's assertion at page [aa]. In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph:

(a) ...

Example 2: Qualified opinion – the controls are not suitably designed to provide reasonable assurance that the ~~stated~~-control objectives stated in the service organization's description of its system will be achieved if the controls operate effectively

...

Service Auditor's Responsibilities

...

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

Basis for Qualified Opinion

As discussed at page [mn] of the accompanying description, from time to time XYZ Service Organization makes changes in application programs to correct deficiencies or to enhance capabilities. The procedures followed in determining whether to make changes, in designing the changes and in implementing them, do not include review and approval by authorized individuals who are independent from those involved in making the changes. There are also no specified requirements to test such changes or provide test results to an authorized reviewer prior to implementing the changes.

Qualified Opinion

Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion were those described in ~~management's~~XYZ Service Organization's assertion at page [aa]. In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph:

(a) ...

Example 3: Qualified opinion – the controls did not operate effectively throughout the specified period (~~Type B~~type 2 report only)

...

Service Auditor's Responsibilities

...

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

Basis for Qualified Opinion

XYZ Service Organization states in its description that it has automated controls in place to reconcile loan payments received with the output generated. However, as noted at page [mn] of the description, this control was not operating effectively during the period from dd/mm/yyyy to dd/mm/yyyy due to a programming error. This resulted in the non-achievement of the control objective “Controls provide reasonable assurance that loan payments received are properly recorded” during the period from dd/mm/yyyy to dd/mm/yyyy. ~~Management~~XYZ implemented a change to the program performing the calculation as of [date], and our tests indicate that it was operating effectively during the period from dd/mm/yyyy to dd/mm/yyyy.

Qualified Opinion

Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion were those described in ~~management's~~XYZ Service Organization's assertion at page [aa]. In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph:

...

Example 4: Qualified opinion – the service auditor is unable to obtain sufficient appropriate evidence

...

Service Auditor's Responsibilities

...

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

Basis for Qualified Opinion

XYZ Service Organization states in its description that it has automated controls in place to reconcile loan payments received with the output generated. However, electronic records of the performance of this reconciliation for the period from *dd/mm/yyyy* to *dd/mm/yyyy* were deleted as a result of a computer processing error, and we were therefore unable to test the operation of this control for that period. Consequently, we were unable to determine whether the control objective “Controls provide reasonable assurance that loan payments received are properly recorded” operated effectively during the period from *dd/mm/yyyy* to *dd/mm/yyyy*.

Qualified Opinion

Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion were those described in ~~management's~~ XYZ Service Organization's assertion at page [aa]. In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph:

(a) ...

PROPOSED CONFORMING AMENDMENT

Preface to the International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services

Other International Standards

- ~~24a~~12a. Some International Standards identified in paragraphs 5-7 contain: objectives, requirements, application and other explanatory material, and introductory material and definitions. These terms are to be interpreted in a directly analogous way to how they are explained in the context of ISAs and financial statement audits in ~~paragraphs 15-22~~ISA 200, “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.”
- ~~24b~~12b. The Other International Standards identified in paragraphs 5-7 contain basic principles and essential procedures ...