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International Standard on Assurance Engagements

ISAE 3402, Assurance Reports on Controls at a Service Organization

INTERNATIONAL STANDARD ON ASSURANCE ENGAGEMENTS 3402

Assurance Reports on Controls at a Service Organization

Explanatory Foreword

The Council of the Malaysian Institute of Accountants has approved this standard in May 2010 for publication. This standard should be read in conjunction with Preface to Approved Standards on Auditing; Preface to International Standards on Quality Control, Auditing, Review, Other Assurance and Related Services; Glossary of Terms and International Framework for Assurance Engagements.

The status of International Standards on Auditing is set out in the Council's statement Preface to Malaysian Approved Standards on Quality Control, Auditing, Review, Other Assurance and Related Services.

Applicability

International Standards on Assurance Engagements (ISAEs) are to be applied in assurance engagements other than audits or reviews of historical financial information.

Notes and Exception

The Council wishes to highlight that where reference is made in the standard to the *Code of Ethics for Professional Accountants* issued by the International Federation of Accountants, it should be deemed as reference to the *By-Laws (on Professional Ethics, Conduct and Practice)* of the Malaysian Institute of Accountants.

Effective Date in Malaysia

This standard is effective for service auditors' assurance reports covering periods ending on or after June 15, 2011.

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INTERNATIONAL STANDARD ON ASSURANCE ENGAGEMENTS (ISAE) 3402
ASSURANCE REPORTS ON CONTROLS AT A SERVICE ORGANIZATION

(Effective for service auditors' assurance reports covering periods ending on or after June 15, 2011)

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International Standard on Assurance Engagements (ISAE) 3402, “Assurance Reports on Controls at a 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 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 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. It complements ISA 402,² in that reports prepared in accordance with this ISAE are capable of providing appropriate evidence under ISA 402. (Ref: Para. A1)
2. The "International Framework for Assurance Engagements" (the Assurance Framework) states that an assurance engagement may be a "reasonable assurance" engagement or a "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.³ This ISAE 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.⁴
3. This ISAE applies only when the service organization is responsible for, or otherwise able to make an assertion about, the suitable design of controls. This ISAE does not deal with assurance engagements:
 - (a) To report only on whether controls at a service organization operated as described, or
 - (b) To report on controls at a service organization other than those related to a service that is likely to be relevant to user entities' internal control as it relates to financial reporting (for example, controls that affect user entities' production or quality control).

This ISAE, however, provides some guidance for such engagements carried out under ISAE 3000.⁵ (Ref: Para. A2)

4. In addition to issuing an assurance report on controls, a service auditor may also be engaged to provide reports such as the following, 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.

Relationship with Other Professional Pronouncements

5. The performance of assurance engagements other than audits or reviews of historical financial information requires the service auditor to comply with ISAE 3000. ISAE 3000

¹ The *Code of Ethics for Professional Accountants* (IESBA Code), issued by the International Ethics Standards Board for Accountants, 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 (for example, 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 Assurance Framework, paragraphs 10, 11 and 57.

⁴ Paragraphs 13 and 52(k) of this ISAE.

⁵ ISAE 3000, "Assurance Engagements Other than Audits or Reviews of Historical Financial Information."

includes requirements in relation to such topics as engagement acceptance, planning, evidence, and documentation that apply to all assurance engagements, including engagements in accordance with this ISAE. This ISAE expands on how ISAE 3000 is to be applied in a reasonable assurance engagement to report on controls at a service organization. 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.

6. Compliance with ISAE 3000 requires, among other things, that the service auditor comply with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (IESBA Code), and implement quality control procedures that are applicable to the individual engagement.⁶

Effective Date

7. This ISAE is effective for service auditors' assurance reports covering periods ending on or after June 15, 2011.

Objectives

8. The objectives of the service auditor are:
 - (a) To obtain reasonable assurance about whether, in all material respects, based on suitable criteria:
 - (i) The service organization's description of its system fairly presents the system as designed and implemented throughout the specified period (or in the case of a type 1 report, as at a specified date);
 - (ii) The controls related to the control objectives stated in the service organization's description of its system were suitably designed throughout the specified period (or in the case of a type 1 report, as at a specified date);
 - (iii) Where included in the scope of the engagement, the controls operated effectively to provide reasonable assurance that the control objectives stated in the service organization's description of its system were achieved throughout the specified period.
 - (b) To report on the matters in (a) above in accordance with the service auditor's findings.

Definitions

9. For purposes of this ISAE, the following terms have the meanings attributed below:
 - (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 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 its system and from the scope of the service auditor's engagement. The service organization's description of its system and the scope of the service auditor's engagement include controls at the service organization

⁶ ISAE 3000, paragraphs 4 and 6.

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 that description.
- (c) Control objective – The aim or purpose of a particular aspect of controls. Control objectives relate to risks that controls seek to mitigate.
- (d) Controls at the service organization – Controls over the achievement of a control objective that is covered by the service auditor's assurance report. (Ref: Para. A3)
- (e) Controls at a subservice organization – Controls at a subservice organization to provide reasonable assurance about the achievement of a control objective.
- (f) Criteria – Benchmarks used to evaluate or measure a subject matter including, where relevant, benchmarks for presentation and disclosure.
- (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 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 its system and in the scope of the service auditor's engagement. (Ref: Para. A4)
- (h) Internal audit function – An appraisal activity established or provided as a service to the service organization. Its functions include, amongst other things, examining, evaluating and monitoring the adequacy and effectiveness of internal control.
- (i) Internal auditors – Those individuals who perform the activities of the internal audit function. Internal auditors may belong to an internal audit department or equivalent function.
- (j) Report on the description and design of controls at a service organization (referred to in this ISAE as a "type 1 report") – A report that comprises:
 - (i) The service organization's description of its system;
 - (ii) A written assertion by the service organization that, in all material respects, and based on suitable criteria:
 - a. The description fairly presents the service organization's system 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.

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- (k) Report on the description, design and operating effectiveness of controls at a service organization (referred to in this ISAE as a “type 2 report”) – A report that comprises:
 - (i) The service organization’s description of its system;
 - (ii) A written assertion by the service organization that, in all material respects, and based on suitable criteria:
 - a. The description fairly presents the service organization’s system as 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 related to the control objectives stated in the service organization’s description of its system operated effectively throughout the specified period; and
 - (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 tests of controls and the results thereof.
- (l) Service auditor – A professional accountant in public practice who, at the request of the service organization, provides an assurance report on controls at a service organization.
- (m) Service organization – A third-party organization (or segment of a third-party organization) that provides services to user entities that are likely to be relevant to user entities’ internal control as it relates to financial reporting.
- (n) Service organization’s system (or the system) – The policies and procedures designed and implemented 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 its system 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.
- (o) Service organization’s assertion – The written assertion about the matters referred to in paragraph 9(k)(ii) (or paragraph 9(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 likely to be relevant to user entities’ internal control as it relates to financial reporting.
- (q) Test of controls – A procedure designed to evaluate the operating effectiveness of controls in achieving the control objectives stated in the service organization’s description of its system.

- (r) User auditor – An auditor who audits and reports on the financial statements of a user entity.⁷
- (s) User entity – An entity that uses a service organization.

Requirements

ISAE 3000

- 10. 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.

Ethical Requirements

- 11. The service auditor shall comply with relevant ethical requirements, including those pertaining to independence, relating to assurance engagements. (Ref: Para. A5)

Management and Those Charged with Governance

- 12. 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. A6)

Acceptance and Continuance

- 13. Before agreeing to accept, or continue, an engagement the service auditor shall:
 - (a) Determine whether:
 - (i) The service auditor has the capabilities and competence to perform the engagement; (Ref: Para. A7)
 - (ii) The criteria to be applied by the service organization to prepare the description of its system will be suitable and available to user entities and their auditors; and
 - (iii) The scope of the engagement and the service organization's description of its system will not be so limited that they are unlikely to be useful to user entities and their auditors.
 - (b) Obtain the agreement of the service organization that it acknowledges and understands its responsibility:
 - (i) For the preparation of the description of its system, and accompanying service organization's assertion, including the completeness, accuracy and method of presentation of that description and assertion; (Ref: Para. A8)
 - (ii) 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;

⁷ 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.

- (iii) For stating in the description of its system:
 - a. The control objectives; and
 - b. Where they are specified by law or regulation, or another party (for example, a user group or a professional body), the party who specified them;
- (iv) For identifying the risks that threaten achievement of the control objectives stated in the description of its system, and designing and implementing 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) To provide the service auditor with:
 - a. Access to all information, such as records, documentation and other matters, including service level agreements, of which the service organization is aware that is relevant to the description of the service organization's system and the accompanying service organization's assertion;
 - b. Additional information that the service auditor may request from the service organization for the purpose of the assurance engagement; and
 - c. Unrestricted access to 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

14. If 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. A11–A12)

Assessing the Suitability of the Criteria

15. As required by ISAE 3000, the service auditor shall assess whether the service organization has used suitable criteria in preparing the description of its system, in evaluating whether controls are suitably designed, and, in the case of a type 2 report, in evaluating whether controls are operating effectively.⁸
16. In assessing the suitability of the criteria to evaluate the service organization's description of its system, the service auditor shall determine if the criteria encompass, at a minimum:
- (a) Whether the description presents how the service organization's system was designed and implemented, 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

⁸ ISAE 3000, paragraph 19.

transactions are initiated, recorded, processed, corrected as necessary, and transferred to the reports 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 and other information prepared for user entities;
 - (iv) How the service organization's system deals with significant events and conditions, other than transactions;
 - (v) The process used to prepare reports and other information for user entities;
 - (vi) The specified control objectives and controls designed to achieve those objectives;
 - (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) 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 information relevant to the scope of the service organization's system being described, while acknowledging that the description is 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.
17. 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 of its system; and
 - (b) The controls identified in that description would, if operated as described, provide reasonable assurance that those risks do not prevent the stated control objectives from being achieved.
18. 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. A13–A15)

Materiality

19. 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 2 report, the operating effectiveness of controls. (Ref: Para. A16–A18)

Obtaining an Understanding of the Service Organization’s System

20. 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. A19–A20)

Obtaining Evidence Regarding the Description

21. The service auditor shall obtain and read the service organization’s description of its system, and shall evaluate whether those aspects of the description included in the scope of the engagement are fairly presented, including whether: (Ref: Para. A21–A22)
 - (a) Control objectives stated in the service organization’s description of its system are reasonable in the circumstances; (Ref: Para. A23)
 - (b) Controls identified in that 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.
22. The service auditor shall determine, through other procedures in combination with inquiries, 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 the service organization’s system operates and controls are applied. (Ref: Para. A24)

Obtaining Evidence Regarding Design of Controls

23. The service auditor shall determine which of the controls at the service organization are necessary to achieve the control objectives stated in the service organization’s description of its system, and shall assess whether those controls were suitably designed. This determination shall include: (Ref: Para. A25–A27)
 - (a) Identifying the risks that threaten the achievement of the control objectives stated in the service organization’s description of 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

24. When providing a type 2 report, the service auditor shall test those controls that the service auditor has determined are necessary to achieve the control objectives stated in the 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. A28–A32)

25. 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 whom 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. A35–A36)
26. When determining the extent of tests of controls, the service auditor shall consider matters including the characteristics of the population to be tested, 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.

Sampling

27. When the service auditor uses sampling, the service auditor shall: (Ref: Para. 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) Determine a sample size sufficient to reduce sampling risk to an appropriately low level;
 - (c) Select items for the sample in such a way that each sampling unit in the population has a chance of selection;
 - (d) If a designed procedure is not applicable to a selected item, perform the procedure on a replacement item; and
 - (e) 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

28. 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 other controls is necessary to reach a conclusion on whether the controls relative to 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.

29. In the extremely rare circumstances when the service auditor considers a deviation discovered in a sample to be an anomaly and no 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 the deviation does not affect the remainder of the population.

The Work of an Internal Audit Function⁹

Obtaining an Understanding of the Internal Audit Function

30. 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

31. 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.
32. 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.
33. 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.

⁹ This ISAE does not deal with instances when individual internal auditors provide direct assistance to the service auditor in carrying out audit procedures.

Using the Work of the Internal Audit Function

34. In order for the service auditor to use specific work of the internal auditors, the service auditor shall evaluate and perform procedures on that work to determine its adequacy for the service auditor's purposes. (Ref: Para. A39)
35. To determine the adequacy of specific work performed by the internal auditors for the service auditor's purposes, the service auditor shall evaluate whether:
 - (a) The work was performed by internal auditors having adequate technical training and proficiency;
 - (b) The work was properly supervised, reviewed and documented;
 - (c) Adequate evidence has been obtained to 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) Exceptions relevant to the engagement or unusual matters disclosed by the internal auditors are properly resolved.

Effect on the Service Auditor's Assurance Report

36. 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. (Ref: Para. A40)
37. In the case of a type 2 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. A41)

Written Representations

38. The service auditor shall request the service organization to provide written representations: (Ref: Para. A42)
 - (a) That reaffirm the assertion accompanying the description of the system;
 - (b) That it has provided the service auditor with all relevant information and access agreed to;¹⁰ and
 - (c) That it has disclosed to the service auditor any of the following of which it is aware:
 - (i) Non-compliance with laws and regulations, fraud, or uncorrected deviations attributable to the service organization that may affect one or more user entities;
 - (ii) Design deficiencies in controls;
 - (iii) Instances where controls have not operated as described; and

¹⁰ Paragraph 13(b)(v) of this ISAE.

- (iv) Any events subsequent to the period covered by the 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 the service auditor's assurance report.
39. The written representations shall be in the form of a representation letter addressed to the service auditor. The date of the written representations shall be as near as practicable to, but not after, the date of the service auditor's assurance report.
40. If, having discussed the matter with the service auditor, the service organization does not provide one or more of the written representations requested in accordance with paragraph 38(a) and (b) of this ISAE, the service auditor shall disclaim an opinion. (Ref: Para. A43)

Other Information

41. The service auditor shall read the other information, if any, included in a document containing the service organization's description of 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.
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 the service organization. If the service auditor concludes that there is a material inconsistency or a misstatement of fact in the other information that the service organization refuses to correct, the service auditor shall take further appropriate action. (Ref: Para. A44–A45)

Subsequent Events

43. The service auditor shall inquire whether the service organization is aware of any events subsequent to the period covered by the 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 the service auditor's assurance report. If the service auditor is aware of such an event, 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.
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

45. The service auditor shall prepare documentation 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.
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 work and the date such work was completed; and
 - (c) Who reviewed the work performed and the date and extent of such review.
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.
49. 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.
50. The service auditor shall assemble the documentation in an engagement file and complete the administrative process of assembling the final engagement file on a timely basis after the date of the service auditor’s assurance report.¹¹
51. 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. A46)
52. 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) The specific reasons for making them; and
 - (b) When and by whom they were made and reviewed.

Preparing the Service Auditor’s Assurance Report

Content of the Service Auditor’s Assurance Report

53. The service auditor’s assurance report shall include the following basic elements: (Ref: Para. A47)
- (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 its system, and the service organization’s assertion, which includes the matters described in paragraph 9(k)(ii) for a type 2 report, or paragraph 9(j)(ii) for a type 1 report.
 - (ii) Those parts of the service organization’s description of its system, if any, that are not covered by the service auditor’s opinion.

¹¹ International Standard on Quality Control (ISQC) 1, paragraphs A54–A55, provide further guidance.

- (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 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, 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 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 its system includes control objectives and related controls at the subservice organization, and that the service auditor's procedures extended to controls at the subservice organization.
- (d) Identification of the criteria, and the party specifying the control objectives.
- (e) A statement that the report and, in the case of a type 2 report, the description of tests of controls are intended only for user entities and their auditors, who have a sufficient understanding to consider it, along with other information including information about controls operated by user entities themselves, when assessing the risks of material misstatements of user entities' financial statements. (Ref: Para. A48)
- (f) A statement that the service organization is responsible for:
- (i) Preparing the description of its system, and the accompanying assertion, including the completeness, accuracy and method of presentation of that description and that assertion;
 - (ii) Providing the services covered by the service organization's description of 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
 - (iv) Designing and implementing controls to achieve the 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 Service Organization," which requires that the service auditor comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether, in all material respects, the service

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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 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 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 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 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.
 - (l) The date of the service auditor's assurance report, which shall be no earlier than the date on which the service auditor has obtained sufficient appropriate evidence on which to base the opinion.
 - (m) The name of the service auditor, and the location in the jurisdiction where the service auditor practices.
54. In the case of a type 2 report, the service auditor's assurance report shall include a separate section after the opinion, or an attachment, that describes the tests of controls that were performed and the results of those tests. In describing the tests of controls, the service auditor shall clearly state which controls 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 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 was achieved. (Ref: Para. A18 and A49)

Modified Opinions

55. If the service auditor concludes that: (Ref: Para. A50–A52)
- (a) The service organization’s description does not fairly present, in all material respects, the system as designed and implemented;
 - (b) The controls related to the control objectives stated in the description were not suitably designed, in all material respects;
 - (c) In the case of a 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, in all material respects; or
 - (d) 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

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 the matter has been communicated appropriately to affected user entities. If the matter has not been so communicated and the service organization is unwilling to do so, the service auditor shall take appropriate action. (Ref: Para. A53)

Application and Other Explanatory Material

Scope of this ISAE (Ref: Para. 1, 3)

- A1. Internal control is a process designed to provide reasonable assurance regarding the achievement of objectives related to the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. Controls related to a service organization’s operations and compliance objectives may be relevant to a user entity’s internal control as it relates to financial reporting. Such controls may pertain to assertions about presentation and disclosure relating to account balances, classes of transactions or disclosures, or may pertain to evidence that the user auditor evaluates or uses in applying auditing procedures. For example, a payroll processing service organization’s controls related to the timely remittance of payroll deductions to government authorities may be relevant to a user entity as late remittances could incur interest and penalties that would result in a liability for the user entity. Similarly, a service organization’s controls over the acceptability of investment transactions from a regulatory perspective may be considered relevant to a user entity’s presentation and disclosure of transactions and account balances in its financial statements. The determination of whether

controls at a service organization related to operations and compliance are likely to be relevant to user entities' internal control as it relates to financial reporting is a matter of professional judgment, having regard to the control objectives set by the service organization and the suitability of the criteria.

- A2. The service organization may not be able to assert that the system is suitably designed when, for example, the service organization is operating a system that 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, the absence of an assertion with respect to the suitability of design will likely preclude the service auditor from concluding that the controls provide reasonable assurance that the control objectives have been met and thus from opining on the operating effectiveness of controls. As an alternative, the practitioner may choose to accept an agreed-upon procedures engagement to perform tests of controls, or an assurance engagement under ISAE 3000 to conclude on whether, based on tests of controls, the controls have operated as described.

Definitions (Ref: Para. 9(d), 9(g))

- A3. The definition of "controls at the service organization" 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 a service organization's control environment, monitoring, and control activities 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 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 13(b)(i)–(v) as applied to the subservice organization rather than the service 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.

Ethical Requirements (Ref: Para. 11)

- A5. The service auditor is subject to relevant independence requirements, which ordinarily comprise Parts A and B of the IESBA Code together with national requirements that are more restrictive. In performing an engagement in accordance with this ISAE, the IESBA Code does not require the service auditor to be independent from each user entity.

Management and Those Charged with Governance (Ref: Para. 12)

- A6. 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

Capabilities and Competence to Perform the Engagement (Ref: Para. 13(a)(i))

- A7. Relevant capabilities and competence to perform the engagement include matters such as the following:
- Knowledge of the relevant industry;
 - An understanding of information technology and systems;
 - Experience in evaluating risks as they relate to the suitable design of controls; and
 - Experience in the design and execution of tests of controls and the evaluation of the results.

Service Organization's Assertion (Ref: Para. 13(b)(i))

- A8. 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.

Reasonable Basis for Service Organization's Assertion (Ref: Para. 13(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. 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 communicated by external parties, such as customer complaints and regulator comments, which may indicate problems or highlight areas in need of improvement. The 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. 13(b)(iv))

- A10. As noted in paragraph 9(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. 14)

- A11. A request to change the scope of the engagement may not have a reasonable justification when, for example, the request is made to exclude certain control objectives from the scope of the engagement because of the likelihood that the service auditor’s opinion would be modified; 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.
- 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. 15–18)

- 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, among other things, to assess the suitability of criteria, and the appropriateness of the subject matter.¹² The subject matter is the underlying condition of interest to intended users of an assurance report. The following table identifies the subject matter and minimum criteria for each of the opinions in type 2 and type 1 reports.

	Subject matter	Criteria	Comment
<i>Opinion about the fair presentation of the description of the service organization’s system (type 1 and type 2)</i>	The service organization’s system that is likely to be relevant to user entities’ internal control as it relates to	The description is fairly presented if it: a) presents how the service organization’s system was designed and implemented including, as appropriate, the	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 service organization’s assertion in Appendix 1. Paragraphs A21–A24 offer further

¹² ISAE 3000, paragraphs 18–19.

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	Subject matter	Criteria	Comment	
<i>reports)</i>	financial reporting and is covered by the service auditor's assurance report.	<p>matters identified in paragraph 16(a)(i)–(viii);</p> <p>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</p> <p>c) does not omit or distort information relevant to the scope of the service organization's system being described, while acknowledging that the description is prepared 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.</p>	guidance on determining whether these criteria are met. (In terms of the requirements of ISAE 3000, the subject matter information ¹³ for this opinion is the service organization's description of its system and the service organization's assertion that the description is fairly presented.)	
Opinion about suitability of design, and operating effectiveness	The suitability of the design and operating effectiveness of those controls that	<p>The controls are suitably designed and operating effectively if:</p> <p>a) the service organization has identified the risks</p>	When the criteria for this opinion are met, controls will have provided reasonable assurance that the	The control objectives, which are stated in the service organization's description of its

¹³ 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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	Subject matter	Criteria	Comment	
<i>(type 2 reports)</i>	are necessary to achieve the control objectives stated in the service organization's description of its system.	<p>that threaten achievement of the control objectives stated in the description of its system;</p> <p>b) the controls identified 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</p> <p>c) 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.</p>	related control objectives were 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.)	system, are part of the criteria for these opinions. The stated 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.
Opinion about suitability of design (type 1 reports)	The suitability of the design of those controls that are necessary to achieve the control objectives stated in the service organization's description of	The controls are suitably designed if: <p>a) the service organization has identified the risks that threaten achievement of the control objectives stated in the description of its system; and</p> <p>b) the controls</p>	Meeting 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	

	Subject matter	Criteria	Comment	
	its system.	identified in that description would, if operated as described, provide reasonable assurance that those risks do not prevent the stated control objectives from being achieved.	requirements of ISAE 3000, the subject matter information for this opinion is the service organization's assertion that controls are suitably designed.)	

A15. Paragraph 16(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. 19, 54)

A16. In an engagement to report on controls at a service organization, the concept of materiality relates to the 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 its system is fairly 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 2 report, whether controls at the service organization are operating effectively in all material respects. The concept of materiality 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 that system has been used.

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 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 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. 20)

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 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 control objectives stated in the service organization's description of its system.
- Assessing whether controls were suitably designed.
- Assessing, in the case of a type 2 report, whether controls were operating effectively.

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

- Inquiring of 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. 21–22)

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 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 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?¹⁴ The description need not address every aspect of the service 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.

¹⁴ ISA 315, "Identifying and Assessing Risks of Material Misstatement through Understanding the Entity and Its Environment."

- Is the description prepared 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 been implemented?
- Are complementary user entity controls, if any, described adequately? 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 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.
- If the inclusive method has been used, does the description separately identify controls at the service organization and controls at the subservice organization? If the carve-out method is used, does the description identify the functions that are performed by the subservice organization? When the carve-out method is used, the description need not describe the detailed processing or controls at the subservice organization.

A22. 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, 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.

A23. Paragraph 21(a) requires the service auditor to evaluate whether the 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 authority, a user group, or a professional body that follows a transparent due process?
- Where the stated control objectives have been specified by 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 the service organization, are they complete? 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.

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 Design of Controls (Ref: Para. 23, 28(b))

A25. 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 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 control objectives stated in the service organization's description of its system are achieved.

A26. A service auditor may consider using flowcharts, questionnaires, or decision tables to facilitate understanding the design of the controls.

A27. Controls may consist of a number of activities directed at the achievement of a control objective. Consequently, if the service auditor evaluates certain activities as being ineffective in achieving a particular control objective, the existence of other activities may allow the service auditor to conclude that controls related to the control objective are suitably designed.

Obtaining Evidence Regarding Operating Effectiveness of Controls

Assessing Operating Effectiveness (Ref: Para. 24)

A28. 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 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 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.

- A29. 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.
- A30. To be useful to user auditors, a 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.
- 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 necessary to test the operating effectiveness of such control procedures at various times throughout the reporting period.
- 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. 25(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. 25(c), 27)

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 sampling would not be effective, such as testing controls that are not applied sufficiently frequently to render a large population for sampling, for example, controls that are applied monthly or weekly; and
- (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.

A36. While selective examination of specific items will often be an efficient means of obtaining evidence, it does not constitute 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. 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.

The Work of an Internal Audit Function

Obtaining an Understanding of the Internal Audit Function (Ref: Para. 30)

A37. 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.

Determining Whether and to What Extent to Use the Work of the Internal Auditors (Ref: Para. 33)

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. 34)

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 (for example, the significance of the risks that the controls tested seek to mitigate), 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. 36–37)

A40. Irrespective of the 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 that responsibility is not reduced by the service auditor's use of the work of the internal auditors.

A41. The service auditor's description of work performed by the internal audit function may be presented in a number of ways, for example:

- By including introductory material to the description of tests of controls indicating that certain work of the internal audit function was used in performing tests of controls.
- Attribution of individual tests to internal audit.

Written Representations (Ref: Para. 38, 40)

A42. The written representations required by paragraph 38 are separate from, and in addition to, the service organization's assertion, as defined at paragraph 9(o).

A43. If the service organization does not provide the written representations requested in accordance with paragraph 38(c) of this ISAE, it may be appropriate for the service auditor's opinion to be modified in accordance with paragraph 55(d) of this ISAE.

Other Information (Ref: Para. 42)

A44. The IESBA 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.¹⁵

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.

¹⁵ IESBA Code, paragraph 110.2.

A45. If the service organization refuses to remove or restate the other information, further actions that may be appropriate include, for example:

- Requesting the service organization to consult with its legal counsel as to the appropriate course of action.
- Describing the material inconsistency or material misstatement of fact in the assurance report.
- Withholding the assurance report until the matter is resolved.
- Withdrawing from the engagement.

Documentation (Ref: Para. 51)

A46. 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.¹⁶ 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.¹⁷

Preparing the Service Auditor's Assurance Report

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

A47. Illustrative examples of service auditors' assurance reports and related service organizations' assertions are contained in Appendices 1 and 2.

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

A48. 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 has been used for financial reporting by user entities. Accordingly this is stated in the service auditor's assurance report. 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 Tests of Controls (Ref: Para. 54)

A49. In describing the nature of the tests of controls for a type 2 report, it assists readers of the service auditor's assurance report if the service auditor includes:

- The results of all tests where deviations have been identified, even if 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 its system.
- Information about causative factors for identified deviations, to the extent the service auditor has identified such factors.

¹⁶ ISQC 1, paragraph 45.

¹⁷ ISQC 1, paragraph A54.

Modified Opinions (Ref: Para. 55)

- A50. Illustrative examples of elements of modified service auditor's assurance reports are contained in Appendix 3.
- A51. Even if the service auditor has expressed an adverse opinion or disclaimed an 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.
- A52. When expressing a disclaimer of 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 disclaimer of opinion.

Other Communication Responsibilities (Ref: Para. 56)

- A53. Appropriate actions to respond to the circumstances identified in paragraph 56 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 Matter paragraph.
 - Withdrawing from the engagement.

Example Service Organization's Assertions

The following 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 2 Service Organization's Assertion

Assertion by the Service Organization

The accompanying description has been prepared for customers 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. *[Entity's name]* confirms that:

- (a) The accompanying description at pages *[bb–cc]* fairly presents *[the type or name of]* system for processing customers' transactions throughout the period *[date]* to *[date]*. The criteria used in making this assertion were that the accompanying description:
 - (i) Presents how the system was designed and implemented, including:
 - The types of services provided, including, as appropriate, classes of transactions processed.
 - The procedures, within both information technology and manual systems, by which those transactions were initiated, recorded, processed, corrected as necessary, and transferred to the reports prepared for customers.
 - The related accounting records, supporting information and specific accounts that were used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information was transferred to the reports prepared for customers.
 - How the system dealt with significant events and conditions, other than transactions.
 - The process used to prepare reports for customers.
 - 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 were relevant to processing and reporting 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 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.
- (b) The controls related to the control objectives stated in the accompanying description were suitably designed and operated effectively throughout the period *[date]* to *[date]*. The criteria used in making this assertion were that:
- (i) The risks that threatened achievement of the control objectives stated in the description were identified;
 - (ii) The identified controls would, if operated as described, provide reasonable assurance that those risks did not prevent the stated control objectives from being achieved; and
 - (iii) The controls were consistently applied as designed, including that manual controls were applied by individuals who have the appropriate competence and authority, throughout the period *[date]* to *[date]*.

Example 2: Type 1 Service Organization’s Assertion

The accompanying description has been prepared for customers 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 obtaining an understanding of customers’ information systems relevant to financial reporting. *[Entity’s name]* confirms that:

- (a) The accompanying description at pages *[bb–cc]* fairly presents *[the type or name of]* system for processing customers’ transactions as at *[date]*. The criteria used in making this assertion were that the accompanying description:
- (i) Presents how the system was designed and implemented, including:
 - The types of services provided, including, as appropriate, classes of transactions processed.
 - The procedures, within both information technology and manual systems, by which those transactions were initiated, recorded, processed, corrected as necessary, and transferred to the reports prepared for customers.
 - The related accounting records, supporting information and specific accounts that were used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the reports prepared customers.
 - How the system dealt with significant events and conditions, other than transactions.
 - The process used to prepare reports for customers.
 - 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 were relevant to processing and reporting customers' transactions.
- (ii) Does not omit or distort information relevant to the scope of the system being described, while acknowledging that the description is prepared to meet the common needs of a broad range of 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 used in making this assertion were that:
- (i) The risks that threatened achievement of the control objectives stated in the description were identified; and
 - (ii) The identified controls would, if operated as described, provide reasonable assurance that those risks did not prevent the stated control objectives from being achieved.

Illustrations of Service Auditor's Assurance Reports

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

Illustration 1: Type 2 Service Auditor's Assurance Report

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

To: XYZ Service Organization

Scope

We have been engaged to report on XYZ Service Organization's description at pages [bb–cc] of its [type or name of] system for processing 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.¹⁸

XYZ Service Organization's Responsibilities

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

Service Auditor's Responsibilities

Our responsibility is to express an opinion on XYZ 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 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 about whether, in all material respects, the description is fairly presented and the controls are suitably designed and operating effectively.

An assurance engagement to report on the description, design and operating effectiveness of controls at a service organization involves performing procedures to obtain evidence about the disclosures in the service organization's description of its system, and the design and operating effectiveness 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. Our procedures included testing the operating effectiveness of those controls that we consider necessary to provide reasonable assurance that the control objectives stated in the description were achieved. An assurance engagement of this type also includes evaluating the overall presentation of the description, the suitability of the objectives stated therein, and the suitability of the criteria specified by the service organization and described at page [aa].

¹⁸ If some elements of the description are not included in the scope of the engagement, this is made clear in the assurance report.

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

Limitations of Controls at a Service 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, because 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 are those described at page [aa]. In our opinion, in all material respects:

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

Description of Tests of Controls

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

Intended Users and Purpose

This report and the description of tests of controls on pages [yy-zz] are intended only for customers 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]

Illustration 2: Type 1 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 its [type or name of] system for processing customers' transactions as at [date] (the description), and on the design of controls related to the control objectives stated in the description.¹⁹

¹⁹ If some elements of the description are not included in the scope of the engagement, this is made clear in the assurance report.

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

XYZ Service Organization is responsible for: preparing 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 designing, implementing and effectively operating controls to achieve the stated control objectives.

Service Auditor's Responsibilities

Our responsibility is to express an opinion on XYZ 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 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 about 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 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 suitably designed. 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 criteria specified by the service organization and described at page [aa].

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 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, because 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 are those described at page [aa]. In our opinion, in all material respects:

- (a) The description fairly presents the [the type or name of] system as designed and implemented as at [date]; and

ASSURANCE REPORTS ON CONTROLS AT A SERVICE ORGANIZATION

- (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 customers 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]

Illustrations of Modified Service Auditor's Assurance Reports

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

Illustration 1: Qualified opinion – the service organization's description of the system is not fairly presented 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 XYZ Service Organization's assertion at page [aa]. In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph:

(a) ...

Illustration 2: Qualified opinion – the controls are not suitably designed to provide reasonable assurance that the 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 XYZ Service Organization's assertion at page [aa]. In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph:

(a) ...

Illustration 3: Qualified opinion – the controls did not operate effectively throughout the specified period (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. 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 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 XYZ Service Organization’s assertion at page *[aa]*. In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph:

(a) ...



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www.wcoa2010kualalumpur.com

Dewan Akauntan
No. 2, Jalan Tun Sambanthan 3
Brickfields, 50470 Kuala Lumpur
Malaysia

[phone] +603 2279 9200

[web] www.mia.org.my

[fax] +603 2273 1016

[email] technical@mia.org.my