AT Section 801

Reporting on Controls at a Service Organization

(Supersedes the guidance for service auditors in Statement on Auditing Standards No. 70, Service Organizations, as amended.)

Source: SSAE No. 16.

Effective for service auditors' reports for periods ending on or after June 15, 2011. Earlier implementation is permitted.

Introduction

Scope of This Section

.01 This section addresses examination engagements undertaken by a service auditor to report on controls at organizations that provide services to user entities when those controls are likely to be relevant to user entities' internal control over financial reporting. It complements AU-C section 402, *Audit Considerations Relating to an Entity Using a Service Organization*, in that reports prepared in accordance with this section may provide appropriate evidence under AU-C section 402. (Ref: par. .A1) [Revised, December 2012, to reflect conforming changes necessary due to the issuance of SAS Nos. 122–126.]

.02 The focus of this section is on controls at service organizations likely to be relevant to user entities' internal control over financial reporting. The guidance herein also may be helpful to a practitioner performing an engagement under section 101, *Attest Engagements*, to report on controls at a service organization

a. other than those that are likely to be relevant to user entities' internal control over financial reporting (for example, controls that affect user entities' compliance with specified requirements of laws, regulations, rules, contracts, or grants, or controls that affect user entities' production or quality control). Section 601, *Compliance Attestation*, is applicable if a practitioner is reporting on an entity's own compliance with specified requirements or on its controls over compliance with specified requirements. (Ref: par. .A2–.A3)

b. when management of the service organization is not responsible for the design of the system (for example, when the system has been designed by the user entity or the design is stipulated in a contract between the user entity and the service organization). (Ref: par. .A4)

.03 In addition to performing an examination of a service organization's controls, a service auditor may be engaged to (*a*) examine and report on a user entity's transactions or balances maintained by a service organization, or (*b*) perform and report the results of agreed upon procedures related to the controls of a service organization or to transactions or balances of a user entity

maintained by a service organization. However, these engagements are not addressed in this section.

.04 The requirements and application material in this section are based on the premise that management of the service organization (also referred to as management) will provide the service auditor with a written assertion that is included in or attached to management's description of the service organization's system. Paragraph .10 of this section addresses the circumstance in which management refuses to provide such a written assertion. Section 101 indicates that when performing an attestation engagement, a practitioner may report directly on the subject matter or on management's assertion. For engagements conducted under this section, the service auditor is required to report directly on the subject matter.

Effective Date

.05 This section is effective for service auditors' reports for periods ending on or after June 15, 2011. Earlier implementation is permitted.

Objectives

.06 The objectives of the service auditor are to

a. obtain reasonable assurance about whether, in all material respects, based on suitable criteria,
   i. management's description of the service organization's system fairly presents the system that was designed and implemented throughout the specified period (or in the case of a type 1 report, as of a specified date).
   ii. the controls related to the control objectives stated in management's description of the service organization's system were suitably designed throughout the specified period (or in the case of a type 1 report, as of a specified date).
   iii. when included in the scope of the engagement, the controls operated effectively to provide reasonable assurance that the control objectives stated in management's description of the service organization's system were achieved throughout the specified period.

b. report on the matters in 6(a) in accordance with the service auditor's findings.

Definitions

.07 For purposes of this section, the following terms have the meanings attributed in the subsequent text:

Carve-out method. Method of addressing the services provided by a subservice organization whereby management's description of the service organization's system identifies the nature of the services performed by the subservice organization and excludes from the description and from the scope of the service auditor's engagement, the subservice organization's relevant control objectives and related controls. Management's description of the service organization's system and the scope of the service auditor's engagement include controls at the service organization that monitor the effectiveness of controls at the subservice organization, which may include management of the service organization's review of a service auditor's report on controls at the subservice organization.

Complementary user entity controls. Controls that management of the service organization assumes, in the design of the service provided by the service organization, will be implemented by user entities, and which, if necessary to achieve the control objectives stated in management's description of the service organization's system, are identified as such in that description.

Control objectives. The aim or purpose of specified controls at the service organization. Control objectives address the risks that controls are intended to mitigate.

Controls at a service organization. The policies and procedures at a service organization likely to be relevant to user entities' internal control over financial reporting. These policies and procedures are designed, implemented, and documented by the service organization to provide reasonable assurance about the achievement of the control objectives relevant to the services covered by the service auditor's report. (Ref: par. .A5)

Controls at a subservice organization. The policies and procedures at a subservice organization likely to be relevant to internal control over financial reporting of user entities of the service organization. These policies and procedures are designed, implemented, and documented by a subservice organization to provide reasonable assurance about the achievement of control objectives that are relevant to the services covered by the service auditor's report.

Criteria. The standards or benchmarks used to measure and present the subject matter and against which the service auditor evaluates the subject matter. (Ref: par. .A6)

Inclusive method. Method of addressing the services provided by a subservice organization whereby management's description of the service organization's system includes a description of the nature of the services provided by the subservice organization as well as the subservice organization's relevant control objectives and related controls. (Ref: par. .A7–.A9)

Internal audit function. The service organization's internal auditors and others, for example, members of a compliance or risk department, who perform activities similar to those performed by internal auditors. (Ref: par. .A10)

Report on management's description of a service organization's system and the suitability of the design of controls (referred to in this section as a *type 1 report*). A report that comprises the following:

a. Management's description of the service organization's system.

b. A written assertion by management of the service organization about whether, in all material respects, and based on suitable criteria,

i. management's description of the service organization's system fairly presents the service organization's system that was designed and implemented as of a specified date.

ii. the controls related to the control objectives stated in management's description of the service organization's system were suitably designed to achieve those control objectives as of the specified date.

c. A service auditor's report that expresses an opinion on the matters in (b)(i)–(b)(ii).

Report on management's description of a service organization's system and the suitability of the design and operating effectiveness of controls (referred to in this section as a *type 2 report*). A report that comprises the following:

a. Management's description of the service organization's system.

b. A written assertion by management of the service organization about whether in all material respects, and based on suitable criteria,

i. management's description of the service organization's system fairly presents the service organization's system that was designed and implemented throughout the specified period.

ii. the controls related to the control objectives stated in management's description of the service organization's system were suitably designed throughout the specified period to achieve those control objectives.

iii. the controls related to the control objectives stated in management's description of the service organization's system operated effectively throughout the specified period to achieve those control objectives.

c. A service auditor's report that

i. expresses an opinion on the matters in (b)(i)–(b)(iii).

ii. includes a description of the tests of controls and the results thereof.

Service auditor. A practitioner who reports on controls at a service organization.

Service organization. An organization or segment of an organization that provides services to user entities, which are likely to be relevant to those user entities' internal control over financial reporting.

Service organization's assertion. A written assertion about the matters referred to in part (b) of the definition of *Report on management's description of a service organization's system and the suitability of the design and operating effectiveness of controls*, for a type 2 report; and, for a type 1 report, the matters referred to in part (b) of the definition of *Report on management's description of a service organization's system and the suitability of the design of controls*.

Service organization's system. The policies and procedures designed, implemented, and documented, by management of the service organization to provide user entities with the services covered by the service auditor's report. Management's description of the service organization's system identifies the services covered, the period to which the description relates (or in the case of a type 1 report, the date to which the description relates), the control objectives specified by management or an outside party, the party specifying the control objectives (if not specified by management), and the related controls. (Ref: par. .A11)

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 those user entities' internal control over financial reporting.

Test of controls. A procedure designed to evaluate the operating effectiveness of controls in achieving the control objectives stated in management's description of the service organization's system.

User auditor. An auditor who audits and reports on the financial statements of a user entity.

User entity. An entity that uses a service organization.

Requirements

Management and Those Charged With Governance

.08 When this section requires the service auditor to inquire of, request representations from, communicate with, or otherwise interact with management of the service organization, the service auditor should determine the appropriate person(s) within the service organization's management or governance structure with whom to interact. This should include consideration of which person(s) have the appropriate responsibilities for and knowledge of the matters concerned. (Ref: par. .A12)

Acceptance and Continuance

.09 A service auditor should accept or continue an engagement to report on controls at a service organization only if (Ref: par. .A13)

a. the service auditor has the capabilities and competence to perform the engagement. (Ref: par. .A14–.A15)

b. the service auditor's preliminary knowledge of the engagement circumstances indicates that

i. the criteria to be used will be suitable and available to the intended user entities and their auditors;

ii. the service auditor will have access to sufficient appropriate evidence to the extent necessary; and

iii. the scope of the engagement and management's description of the service organization's system will not be so limited that they are unlikely to be useful to user entities and their auditors.

c. management agrees to the terms of the engagement by acknowledging and accepting its responsibility for the following:

i. Preparing its description of the service organization's system and its assertion, including the completeness, accuracy, and method of presentation of the description and assertion. (Ref: par. .A16)

ii. Having a reasonable basis for its assertion. (Ref: par. .A17)

iii. Selecting the criteria to be used and stating them in the assertion.

iv. Specifying the control objectives, stating them in the description of the service organization's system, and, if the control objectives are specified by law, regulation, or another party (for example, a user group or a professional body), identifying in the description the party specifying the control objectives.

v. Identifying the risks that threaten the achievement of the control objectives stated in the description and designing, implementing, and documenting controls that are suitably designed and operating effectively to provide reasonable assurance that the control objectives stated in the description of the service organization's system will be achieved. (Ref: par. .A18)

vi. Providing the service auditor with

(1) access to all information, such as records and documentation, including service level agreements, of which management is aware that is relevant to the description of the service organization's system and the assertion;

(2) additional information that the service auditor may request from management for the purpose of the examination engagement;

(3) unrestricted access to personnel within the service organization from whom the service auditor determines it is necessary to obtain evidence relevant to the service auditor's engagement; and

(4) written representations at the conclusion of the engagement.

vii. Providing a written assertion that will be included in, or attached to management's description of the service organization's system, and provided to user entities.

.10 If management will not provide the service auditor with a written assertion, the service auditor should not circumvent the requirement to obtain an assertion by performing a service auditor's engagement under section 101. (Ref: par. .A19)

.11 Management's subsequent refusal to provide a written assertion represents a scope limitation and consequently, the service auditor should withdraw from the engagement. If law or regulation does not allow the service auditor to withdraw from the engagement, the service auditor should disclaim an opinion.

Request to Change the Scope of the Engagement

.12 If management requests a change in the scope of the engagement before the completion of the engagement, the service auditor should be satisfied, before agreeing to the change, that a reasonable justification for the change exists. (Ref: par. .A20–.A21)

Assessing the Suitability of the Criteria (Ref: par. .A6 and .A22–.A23)

.13 As required by paragraph .23 of section 101, the service auditor should assess whether management has used suitable criteria

a. in preparing its description of the service organization's system;

b. in evaluating whether controls were suitably designed to achieve the control objectives stated in the description; and

c. in the case of a type 2 report, in evaluating whether controls operated effectively throughout the specified period to achieve the control objectives stated in the description of the service organization's system.

.14 In assessing the suitability of the criteria to evaluate whether management's description of the service organization's system is fairly presented, the service auditor should determine if the criteria include, at a minimum,

a. whether management's description of the service organization's system presents how the service organization's system was designed and implemented, including the following information about the service organization's system, if applicable:

i. The types of services provided including, as appropriate, the classes of transactions processed.

ii. The procedures, within both automated and manual systems, by which services are provided, including, as appropriate, procedures by which transactions are initiated, authorized, recorded, processed, corrected as necessary, and transferred to the reports and other information prepared for user entities.

iii. The related accounting records, whether electronic or manual, and supporting information involved in initiating, authorizing, recording, processing, and reporting 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 captures and addresses 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, including as applicable, complementary user entity controls contemplated in the design of the service organization's controls.

vii. Other aspects of the service organization's control environment, risk assessment process, information and communication systems (including the related business processes), control activities, and monitoring controls that are relevant to the services provided. (Ref: par. A17 and .A24)

b. in the case of a type 2 report, whether management's description of the service organization's system includes relevant details of changes to the service organization's system during the period covered by the description. (Ref: par. .A44)

c. whether management's description of the service organization's system does not omit or distort information relevant to the service organization's system, while acknowledging that management's description of the service organization's system is prepared to meet the common needs of a broad range of user entities and their user auditors, and may not, therefore, include every aspect of the service organization's system that each individual user entity and its user auditor may consider important in its own particular environment.

.15 In assessing the suitability of the criteria to evaluate whether the controls are suitably designed, the service auditor should determine if the criteria include, at a minimum, whether

a. the risks that threaten the achievement of the control objectives stated in management's description of the service organization's system have been identified by management.

b. the controls identified in management's description of the service organization's system would, if operating as described, provide reasonable assurance that those risks would not prevent the control objectives stated in the description from being achieved.

.16 In assessing the suitability of the criteria to evaluate whether controls operated effectively to provide reasonable assurance that the control objectives stated in management's description of the service organization's system were achieved, the service auditor should determine if the criteria include, at a minimum, whether the controls were consistently applied as designed throughout the specified period, including whether manual controls were applied by individuals who have the appropriate competence and authority.

Materiality

.17 When planning and performing the engagement, the service auditor should evaluate materiality with respect to the fair presentation of management's description of the service organization's system, the suitability of the design of controls to achieve the related control objectives stated in the description and, in the case of a type 2 report, the operating effectiveness of the controls to achieve the related control objectives stated in the description. (Ref: par. .A25–.A27)

Obtaining an Understanding of the Service Organization's System (Ref: par. .A28–.A30)

.18 The service auditor should obtain an understanding of the service organization's system, including controls that are included in the scope of the engagement.

Obtaining Evidence Regarding Management's Description of the Service Organization's System (Ref: par. .A26 and .A31–.A35)

.19 The service auditor should obtain and read management's description of the service organization's system and should evaluate whether those aspects of the description that are included in the scope of the engagement are presented fairly, including whether

a. the control objectives stated in management's description of the service organization's system are reasonable in the circumstances. (Ref: par. .A34)

b. controls identified in management's description of the service organization's system were implemented. (Ref: par. .A35)

c. complementary user entity controls, if any, are adequately described. (Ref: par. .A32)

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.

.20 The service auditor should determine through inquiries made in combination with other procedures whether the service organization's system has been implemented. Such other procedures should 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: par. .A35)

Obtaining Evidence Regarding the Design of Controls (Ref: par .A26 and .A36–.A39)

.21 The service auditor should determine which of the controls at the service organization are necessary to achieve the control objectives stated in management's description of the service organization's system and should assess whether those controls were suitably designed to achieve the control objectives by

a. identifying the risks that threaten the achievement of the control objectives stated in management's description of the service organization's system, and (Ref: par. .A36)

b. evaluating the linkage of the controls identified in management's description of the service organization's system with those risks.

Obtaining Evidence Regarding the Operating Effectiveness of Controls (Ref: par. .A26 and .A40–.A45)

Assessing Operating Effectiveness

.22 When performing a type 2 engagement, the service auditor should test those controls that the service auditor has determined are necessary to achieve the control objectives stated in management's description of the service organization's system and should 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: par. .A40–.A44)

.23 When performing a type 2 engagement, the service auditor should inquire about changes in the service organization's controls that were implemented during the period covered by the service auditor's report. If the service auditor believes the changes would be considered significant by user entities and their auditors, the service auditor should determine whether those changes are included in management's description of the service organization's system. If such changes are not included in the description, the service auditor should describe the changes in the service auditor's report and determine the effect on the service auditor's report. If the superseded controls are relevant to the achievement of the control objectives stated in the description, the service auditor should, if possible, test the superseded controls before the change. If the service auditor cannot test superseded controls relevant to the achievement of the control objectives stated in the description, the service auditor should determine the effect on the service auditor's report. (Ref: par. .A42(c) and .A45)

.24 When designing and performing tests of controls, the service auditor should

a. perform other procedures in combination with inquiry to obtain evidence about the following:

i. How the control was applied.

ii. The consistency with which the control was applied.

iii. By whom or by what means the control was applied.

b. determine whether the controls to be tested depend on other controls, and if so, whether it is necessary to obtain evidence supporting the operating effectiveness of those other controls.

c. determine an effective method for selecting the items to be tested to meet the objectives of the procedure.

.25 When determining the extent of tests of controls and whether sampling is appropriate, the service auditor should consider the characteristics of the population of the controls to be tested, including the nature of the controls, the frequency of their application (for example, monthly, daily, many times per day), and the expected rate of deviation. AU-C section 530, *Audit Sampling*, addresses the auditor's use of statistical and nonstatistical sampling when designing and selecting the audit sample, performing tests of controls and tests of details, and evaluating the results from the sample. If the service auditor determines that sampling is appropriate, the service auditor should apply AU-C section 530. [Revised, December 2012, to reflect conforming changes necessary due to the issuance of SAS Nos. 122–126.]

Nature and Cause of Deviations

.26 The service auditor should investigate the nature and cause of any deviations identified, and should determine whether

a. identified deviations are within the expected rate of deviation and are acceptable. If so, the testing that has been performed provides an appropriate basis for concluding that the control operated effectively throughout the specified period.

b. additional testing of the control or of other controls is necessary to reach a conclusion about whether the controls related to the control objectives stated in management's description of the service organization's system operated effectively throughout the specified period.

c. the testing that has been performed provides an appropriate basis for concluding that the control did not operate effectively throughout the specified period.

.27 If, as a result of performing the procedures in paragraph .26, the service auditor becomes aware that any identified deviations have resulted from intentional acts by service organization personnel, the service auditor should assess the risk that management's description of the service organization's system is not fairly presented, the controls are not suitably designed, and in a type 2 engagement, the controls are not operating effectively. (Ref: par. .A31)

Using the Work of the Internal Audit Function

Obtaining an Understanding of the Internal Audit Function (Ref: par. .A46–.A47)

.28 If the service organization has an internal audit function, the service auditor should 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.

Planning to Use the Work of the Internal Audit Function

.29 When the service auditor intends to use the work of the internal audit function, the service auditor should determine whether the work of the internal

audit function is likely to be adequate for the purposes of the engagement by evaluating the following:

a. The objectivity and technical competence of the members of the internal audit function

b. Whether the work of the internal audit function is likely to be carried out with due professional care

c. Whether it is likely that effective communication will occur between the internal audit function and the service auditor, including consideration of the effect of any constraints or restrictions placed on the internal audit function by the service organization

.30 If the service auditor determines that the work of the internal audit function is likely to be adequate for the purposes of the engagement, in determining the planned effect of the work of the internal audit function on the nature, timing, or extent of the service auditor's procedures, the service auditor should evaluate the following:

a. The nature and scope of specific work performed, or to be performed, by the internal audit function

b. The significance of that work to the service auditor's conclusions

c. The degree of subjectivity involved in the evaluation of the evidence gathered in support of those conclusions

Using the Work of the Internal Audit Function (Ref: par. .A48)

.31 In order for the service auditor to use specific work of the internal audit function, the service auditor should evaluate and perform procedures on that work to determine its adequacy for the service auditor's purposes.

.32 To determine the adequacy of specific work performed by the internal audit function for the service auditor's purposes, the service auditor should evaluate whether

a. the work was performed by members of the internal audit function having adequate technical training and proficiency;

b. the work was properly supervised, reviewed, and documented;

c. sufficient appropriate evidence was obtained to enable the internal audit function to draw reasonable conclusions;

d. conclusions reached are appropriate in the circumstances and any reports prepared by the internal audit function are consistent with the results of the work performed; and

e. exceptions relevant to the engagement or unusual matters disclosed by the internal audit function are properly resolved.

Effect on the Service Auditor's Report

.33 If the work of the internal audit function has been used, the service auditor should not make reference to that work in the service auditor's opinion. Notwithstanding its degree of autonomy and objectivity, the internal audit function is not independent of the service organization. The service auditor has sole responsibility for the opinion expressed in the service auditor's report and, accordingly, that responsibility is not reduced by the service auditor's use of the work of the internal audit function. (Ref: par. .A49)

.34 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 report that describes the service auditor's tests of controls and results thereof

should include a description of the internal auditor's work and of the service auditor's procedures with respect to that work. (Ref: par. .A50)

Direct Assistance

.35 When the service auditor uses members of the service organization's internal audit function to provide direct assistance, the service auditor should adapt and apply the requirements in paragraph .27 of AU-C section 610, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*. [Revised, December 2012, to reflect conforming changes necessary due to the issuance of SAS Nos. 122–126.]

Written Representations (Ref: par. .A51–.A55)

.36 The service auditor should request management to provide written representations that

a. reaffirm its assertion included in or attached to the description of the service organization's system;

b. it has provided the service auditor with all relevant information and access agreed to; and [1]

c. it has disclosed to the service auditor any of the following of which it is aware:

i. Instances of noncompliance with laws and regulations or uncorrected errors attributable to the service organization that may affect one or more user entities.

ii. Knowledge of any actual, suspected, or alleged intentional acts by management or the service organization's employees, that could adversely affect the fairness of the presentation of management's description of the service organization's system or the completeness or achievement of the control objectives stated in the description.

iii. Design deficiencies in controls.

iv. Instances when controls have not operated as described.

v. Any events subsequent to the period covered by management's description of the service organization's system up to the date of the service auditor's report that could have a significant effect on management's assertion.

.37 If a service organization uses a subservice organization and management's description of the service organization's system uses the inclusive method, the service auditor also should obtain the written representations identified in paragraph .36 from management of the subservice organization.

.38 The written representations should be in the form of a representation letter addressed to the service auditor and should be as of the same date as the date of the service auditor's report.

.39 If management does not provide one or more of the written representations requested by the service auditor, the service auditor should do the following:

a. Discuss the matter with management

[1] See paragraph .09(c)(vi)(1).

b. Evaluate the effect of such refusal on the service auditor's assessment of the integrity of management and evaluate the effect that this may have on the reliability of management's representations and evidence in general

c. Take appropriate actions, which may include disclaiming an opinion or withdrawing from the engagement

If management refuses to provide the representations in paragraphs .36(a)–.36(b) of this section, the service auditor should disclaim an opinion or withdraw from the engagement.

Other Information (Ref: par. .A56–.A57)

.40 The service auditor should read other information, if any, included in a document containing management's description of the service organization's system and the service auditor's 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 the other information.

.41 If the service auditor becomes aware of a material inconsistency or an apparent misstatement of fact in the other information, the service auditor should discuss the matter with management. If the service auditor concludes that there is a material inconsistency or a misstatement of fact in the other information that management refuses to correct, the service auditor should take further appropriate action.[2]

Subsequent Events

.42 The service auditor should inquire whether management is aware of any events subsequent to the period covered by management's description of the service organization's system up to the date of the service auditor's report that could have a significant effect on management's assertion. If the service auditor becomes aware, through inquiry or otherwise, of such an event, or any other event that is of such a nature and significance that its disclosure is necessary to prevent users of a type 1 or type 2 report from being misled, and information about that event is not disclosed by management in its description, the service auditor should disclose such event in the service auditor's report.

.43 The service auditor has no responsibility to keep informed of events subsequent to the date of the service auditor's report; however, after the release of the service auditor's report, the service auditor may become aware of conditions that existed at the report date that might have affected management's assertion and the service auditor's report had the service auditor been aware of them. The evaluation of such subsequent information is similar to the evaluation of facts discovered subsequent to the date of the report on an audit of financial statements, as described in AU-C section 560, *Subsequent Events and Subsequently Discovered Facts*, and therefore, the service auditor should adapt and apply AU-C section 560. [Revised, December 2012, to reflect conforming changes necessary due to the issuance of SAS Nos. 122–126.]

Documentation (Ref: par. .A58)

.44 The service auditor should prepare documentation that is sufficient to enable an experienced service auditor, having no previous connection with the engagement, to understand the following:

---

[2] See paragraphs .91–.94 of section 101, *Attest Engagements*.

a. The nature, timing, and extent of the procedures performed to comply with this section and with applicable legal and regulatory requirements

b. The results of the procedures performed and the evidence obtained

c. Significant findings or issues arising during the engagement, the conclusions reached thereon, and significant professional judgments made in reaching those conclusions

.45 In documenting the nature, timing, and extent of procedures performed, the service auditor should record the following:

a. Identifying characteristics of the specific items or matters being tested

b. Who performed the work and the date such work was completed

c. Who reviewed the work performed and the date and extent of such review

.46 If the service auditor uses specific work of the internal audit function, the service auditor should document the conclusions reached regarding the evaluation of the adequacy of the work of the internal audit function and the procedures performed by the service auditor on that work.

.47 The service auditor should document discussions of significant findings or issues with management and others, including the nature of the significant findings or issues, when the discussions took place, and with whom.

.48 If the service auditor has identified information that is inconsistent with the service auditor's final conclusion regarding a significant finding or issue, the service auditor should document how the service auditor addressed the inconsistency.

.49 The service auditor should assemble the engagement documentation in an engagement file and complete the administrative process of assembling the final engagement file on a timely basis, no later than 60 days following the service auditor's report release date.

.50 After the assembly of the final engagement file has been completed, the service auditor should not delete or discard documentation before the end of its retention period.

.51 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, the service auditor should, regardless of the nature of the modifications or additions, document the following:

a. The specific reasons for making them

b. When and by whom they were made and reviewed

Preparing the Service Auditor's Report

Content of the Service Auditor's Report (Ref: par. .A59)

.52 A service auditor's type 2 report should include the following elements:

a. A title that includes the word *independent*.

b. An addressee.

c. Identification of

i. management's description of the service organization's system and the function performed by the system.

ii. any parts of management's description of the service organization's system that are not covered by the service auditor's report. (Ref: par. .A56)

iii. any information included in a document containing the service auditor's report that is not covered by the service auditor's report. (Ref: par. .A56)

iv. the criteria.

v. any services performed by a subservice organization and whether the carve-out method or the inclusive method was used in relation to them. Depending on which method is used, the following should be included:

(1) If the carve-out method was used, a statement that management's description of the service organization's system excludes the control objectives and related controls at relevant subservice organizations, and that the service auditor's procedures do not extend to the subservice organization.

(2) If the inclusive method was used, a statement that management's description of the service organization's system includes the subservice organization's specified control objectives and related controls, and that the service auditor's procedures included procedures related to the subservice organization.

d. If management's description of the service organization's system refers to the need for complementary user entity controls, a statement that the service auditor has not evaluated the suitability of the design or operating effectiveness of complementary user entity controls, and that the control objectives stated in the description can be achieved only if complementary user entity controls are suitably designed and operating effectively, along with the controls at the service organization.

e. A reference to management's assertion and a statement that management is responsible for (Ref: par. .A60)

i. preparing the description of the service organization's system and the assertion, including the completeness, accuracy, and method of presentation of the description and assertion;

ii. providing the services covered by the description of the service organization's system;

iii. specifying the control objectives unless the control objectives are specified by law, regulation, or another party, and stating them in the description of the service organization's system;

iv. identifying the risks that threaten the achievement of the control objectives;

v. selecting the criteria; and

vi. designing, implementing, and documenting controls that are suitably designed and operating effectively to achieve the related control objectives stated in the description of the service organization's system.

f. A statement that the service auditor's responsibility is to express an opinion on the fairness of the presentation of management's description of the service organization's system and on the suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the description, based on the service auditor's examination.

g. A statement that the examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and that those standards require the service auditor to plan and perform the examination to obtain reasonable assurance about whether management's description of the service organization's system is fairly presented and the controls are suitably designed and operating effectively throughout the specified period to achieve the related control objectives.

h. A statement that an examination of management's description of a service organization's system and the suitability of the design and operating effectiveness of the service organization's controls to achieve the related control objectives stated in the description involves performing procedures to obtain evidence about the fairness of the presentation of the description and the suitability of the design and operating effectiveness of those controls to achieve the related control objectives stated in the description.

i. A statement that the examination included assessing the risks that management's description of the service organization's system is not fairly presented and that the controls were not suitably designed or operating effectively to achieve the related control objectives.

j. A statement that the examination also included testing the operating effectiveness of those controls that the service auditor considers necessary to provide reasonable assurance that the related control objectives stated in management's description of the service organization's system were achieved.

k. A statement that an examination engagement of this type also includes evaluating the overall presentation of management's description of the service organization's system and suitability of the control objectives stated in the description.

l. A statement that the service auditor believes the examination provides a reasonable basis for his or her opinion.

m. A statement about the inherent limitations of controls, including the risk of projecting to future periods any evaluation of the fairness of the presentation of management's description of the service organization's system or conclusions about the suitability of the design or operating effectiveness of controls.

n. The service auditor's opinion on whether, in all material respects, based on the criteria described in management's assertion,

i. management's description of the service organization's system fairly presents the service organization's system that was designed and implemented throughout the specified period.

ii. the controls related to the control objectives stated in management's description of the service organization's system were suitably designed to provide reasonable assurance

that those control objectives would be achieved if the controls operated effectively throughout the specified period.

iii. the controls the service auditor tested, which were those necessary to provide reasonable assurance that the control objectives stated in management's description of the service organization's system were achieved, operated effectively throughout the specified period.

iv. if the application of complementary user entity controls is necessary to achieve the related control objectives stated in management's description of the service organization's system, a reference to this condition.

o. A reference to a description of the service auditor's tests of controls and the results thereof, that includes

i. identification of the controls that were tested, whether the items tested represent all or a selection of the items in the population, and the nature of the tests in sufficient detail to enable user auditors to determine the effect of such tests on their risk assessments. (Ref: par. .A50)

ii. if deviations have been identified in the operation of controls included in the description, the extent of testing performed by the service auditor that led to the identification of the deviations (including the number of items tested), and the number and nature of the deviations noted (even if, on the basis of tests performed, the service auditor concludes that the related control objective was achieved). (Ref: par. .A65)

p. A statement restricting the use of the service auditor's report to management of the service organization, user entities of the service organization's system during some or all of the period covered by the service auditor's report, and the independent auditors of such user entities. (Ref: par. .A61–.A64)

q. The date of the service auditor's report.

r. The name of the service auditor and the city and state where the service auditor maintains the office that has responsibility for the engagement.

.53 A service auditor's type 1 report should include the following elements:

a. A title that includes the word *independent*.

b. An addressee.

c. Identification of

i. management's description of the service organization's system and the function performed by the system.

ii. any parts of management's description of the service organization's system that are not covered by the service auditor's report. (Ref: par. .A56)

iii. any information included in a document containing the service auditor report that is not covered by the service auditor's report. (Ref: par. .A56)

iv. the criteria.

v. any services performed by a subservice organization and whether the carve-out method or the inclusive method was

used in relation to them. Depending on which method is used, the following should be included:

(1) If the carve-out method was used, a statement that management's description of the service organization's system excludes the control objectives and related controls at relevant subservice organizations, and that the service auditor's procedures do not extend to the subservice organization.

(2) If the inclusive method was used, a statement that management's description of the service organization's system includes the subservice organization's specified control objectives and related controls, and that the service auditor's procedures included procedures related to the subservice organization.

d. If management's description of the service organization's system refers to the need for complementary user entity controls, a statement that the service auditor has not evaluated the suitability of the design or operating effectiveness of complementary user entity controls, and that the control objectives stated in the description can be achieved only if complementary user entity controls are suitably designed and operating effectively, along with the controls at the service organization.

e. A reference to management's assertion and a statement that management is responsible for (Ref: par. .A60)

i. preparing the description of the service organization's system and assertion, including the completeness, accuracy, and method of presentation of the description and assertion;

ii. providing the services covered by the description of the service organization's system;

iii. specifying the control objectives, unless the control objectives are specified by law, regulation, or another party, and stating them in the description of the service organization's system;

iv. identifying the risks that threaten the achievement of the control objectives,

v. selecting the criteria; and

vi. designing, implementing, and documenting controls that are suitably designed and operating effectively to achieve the related control objectives stated in the description of the service organization's system.

f. A statement that the service auditor's responsibility is to express an opinion on the fairness of the presentation of management's description of the service organization's system and on the suitability of the design of the controls to achieve the related control objectives stated in the description, based on the service auditor's examination.

g. A statement that the examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants, and that those standards require the service auditor to plan and perform the examination to obtain

reasonable assurance about whether management's description of the service organization's system is fairly presented and the controls are suitably designed as of the specified date to achieve the related control objectives.

h. A statement that the service auditor has not performed any procedures regarding the operating effectiveness of controls and, therefore, expresses no opinion thereon.

i A statement that an examination of management's description of a service organization's system and the suitability of the design of the service organization's controls to achieve the related control objectives stated in the description involves performing procedures to obtain evidence about the fairness of the presentation of the description and the suitability of the design of those controls to achieve the related control objectives stated in the description.

j. A statement that the examination included assessing the risks that management's description of the service organization's system is not fairly presented and that the controls were not suitably designed to achieve the related control objectives.

k. A statement that an examination engagement of this type also includes evaluating the overall presentation of management's description of the service organization's system and suitability of the control objectives stated in the description.

l. A statement that the service auditor believes the examination provides a reasonable basis for his or her opinion.

m. A statement about the inherent limitations of controls, including the risk of projecting to future periods any evaluation of the fairness of the presentation of management's description of the service organization's system or conclusions about the suitability of the design of the controls to achieve the related control objectives.

n. The service auditor's opinion on whether, in all material respects, based on the criteria described in management's assertion,

i. management's description of the service organization's system fairly presents the service organization's system that was designed and implemented as of the specified date.

ii. the controls related to the control objectives stated in management's description of the service organization's system were suitably designed to provide reasonable assurance that those control objectives would be achieved if the controls operated effectively as of the specified date.

iii. if the application of complementary user entity controls is necessary to achieve the related control objectives stated in management's description of the service organization's system, a reference to this condition.

o. A statement restricting the use of the service auditor's report to management of the service organization, user entities of the service organization's system as of the end of the period covered by the service auditor's report, and the independent auditors of such user entities. (Ref: par. .A61–.A64)

p. The date of the service auditor's report.

q. The name of the service auditor and the city and state where the service auditor maintains the office that has responsibility for the engagement.

Report Date

.54 The service auditor should date the service auditor's report no earlier than the date on which the service auditor has obtained sufficient appropriate evidence to support the service auditor's opinion.

Modified Opinions (Ref: par. .A66)

.55 The service auditor's opinion should be modified and the service auditor's report should contain a clear description of all the reasons for the modification, if the service auditor concludes that

a. management's description of the service organization's system is not fairly presented, in all material respects;

b. the controls are not suitably designed to provide reasonable assurance that the control objectives stated in management's description of the service organization's system would be achieved if the controls operated as described;

c. in the case of a type 2 report, the controls did not operate effectively throughout the specified period to achieve the related control objectives stated in management's description of the service organization's system; or

d. the service auditor is unable to obtain sufficient appropriate evidence

.56 If the service auditor plans to disclaim an opinion because of the inability to obtain sufficient appropriate evidence, and, based on the limited procedures performed, has concluded that,

a. certain aspects of management's description of the service organization's system are not fairly presented, in all material respects;

b. certain controls were not suitably designed to provide reasonable assurance that the control objectives stated in management's description of the service organization's system would be achieved if the controls operated as described; or

c. in the case of a type 2 report, certain controls did not operate effectively throughout the specified period to achieve the related control objectives stated in management's description of the service organization's system,

the service auditor should identify these findings in his or her report.

.57 If the service auditor plans to disclaim an opinion, the service auditor should not identify the procedures that were performed nor include statements describing the characteristics of a service auditor's engagement in the service auditor's report; to do so might overshadow the disclaimer.

Other Communication Responsibilities

.58 If the service auditor becomes aware of incidents of noncompliance with laws and regulations, fraud, or uncorrected errors attributable to management or other service organization personnel that are not clearly trivial and that may affect one or more user entities, the service auditor should determine the effect of such incidents on management's description of the service organization's system, the achievement of the control objectives, and the service auditor's report.

Additionally, the service auditor should determine whether this information has been communicated appropriately to affected user entities. If the information has not been so communicated, and management of the service organization is unwilling to do so, the service auditor should take appropriate action. (Ref: par. .A67)

Application and Other Explanatory Material

Scope of This Section

.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 over 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 because 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. (Ref: par. .01)

.A2 Paragraph .02 of this section refers to other engagements that the practitioner may perform and report on under section 101 to report on controls at a service organization. Paragraph .02 is not, however, intended to

- provide for the alteration of the definitions of *service organization* and *service organization's system* in paragraph .07 to permit reports issued under this section to include in the description of the service organization's system aspects of their services (including relevant control objectives and related controls) not likely to be relevant to user entities' internal control over financial reporting, or
- permit a report to be issued that combines reporting under this section on a service organization's controls that are likely to be relevant to user entities' internal control over financial reporting, with reporting under section 101 on controls that are not likely to be relevant to user entities' internal control over financial reporting. (Ref: par. .02(a))

.A3 When a service auditor conducts an engagement under section 101 to report on controls at a service organization other than those controls likely to be relevant to user entities' internal control over financial reporting, and the service auditor intends to use the guidance in this section in planning and performing that engagement, the service auditor may encounter issues that differ significantly from those associated with engagements to report on a service organization's controls likely to be relevant to user entities' internal control over financial reporting. For example,

- identification of suitable and available criteria, as prescribed in paragraphs .23–.34 of section 101, for evaluating the fairness of presentation of management's description of the service organization's system and the suitability of the design and the operating effectiveness of the controls.
- identification of appropriate control objectives, and the basis for evaluating the reasonableness of the control objectives in the circumstances of the particular engagement.

- identification of the intended users of the report and the manner in which they intend to use the report.
- relevance and appropriateness of the definitions in paragraph .07 of this section, many of which specifically relate to internal control over financial reporting.
- application of references to auditing standards (AU-C sections) that are intended to provide the service auditor with guidance relevant to internal control over financial reporting.
- application of the concept of materiality in the circumstances of the particular engagement.
- developing the language to be used in the practitioner's report, including addressing paragraphs .84–.87 of section 101, which identify the elements to be included in an examination report. (Ref: par. .02(a))

.A4 When management of the service organization is not responsible for the design of the system, it is unlikely that management of the service organization will be in a position to assert that the system is suitably designed. Controls cannot operate effectively unless they are suitably designed. Because of the inextricable link between the suitability of the 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 opining on the operating effectiveness of controls. As an alternative, the practitioner may perform tests of controls in either an agreed-upon procedures engagement under section 201, *Agreed Upon Procedures Engagements*, or an examination of the operating effectiveness of the controls under section 101. (Ref: par. .02(b))

Definitions

Controls at a Service Organization (Ref: par. .07)

.A5 The policies and procedures referred to in the definition of *controls at a service organization* in paragraph .07 include 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, the definition of *controls at a service organization* may include aspects of the service organization's control environment, monitoring, and control activities when they relate to the services provided. Such definition does not, however, include controls at a service organization that are not related to the achievement of the control objectives stated in management's description of the service organization's system; for example, controls related to the preparation of the service organization's own financial statements.

Criteria (Ref: par. .07 and .14–.16)

.A6 For the purposes of engagements performed in accordance with this section, criteria need to be available to user entities and their auditors to enable them to understand the basis for the service organization's assertion about the fair presentation of management's description of the service organization's system, the suitability of the design of controls that address control objectives stated in the description of the system and, in the case of a type 2 report, the operating effectiveness of such controls. Information about suitable criteria is provided in paragraphs .23–.34 of section 101. Paragraphs .14–.16 of this section

discuss the criteria for evaluating the fairness of the presentation of management's description of the service organization's system and the suitability of the design and operating effectiveness of the controls.

Inclusive Method (Ref: par. .07)

.A7 As indicated in the definition of *inclusive method* in paragraph .07, a service organization that uses a subservice organization presents management's description of the service organization's system to include a description of the services provided by the subservice organization as well as the subservice organization's relevant control objectives and related controls. When the inclusive method is used, the requirements of this section also apply to the services provided by the subservice organization, including the requirement to obtain management's acknowledgement and acceptance of responsibility for the matters in paragraph .09(c)(i)–(vii) as they relate to the subservice organization.

.A8 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 if, for example, the service organization and the subservice organization are related, or if the contract between the service organization and the subservice organization provides for issuance of a service auditor's report. If the service auditor is unable to obtain an assertion from the subservice organization regarding management's description of the service organization's system provided, including the relevant control objectives and related controls at the subservice organization, the service auditor is unable to use the inclusive method but may instead use the carve-out method.

.A9 There may be instances when the service organization's controls, such as monitoring controls, permit the service organization to include in its assertion the relevant aspects of the subservice organization's system, including the relevant control objectives and related controls of the subservice organization. In such instances, the service auditor is basing his or her opinion solely on the controls at the service organization, and hence, the inclusive method is not applicable.

Internal Audit Function (Ref: par. .07)

.A10 The "others" referenced in the definition of *internal audit function* may be individuals who perform activities similar to those performed by internal auditors and include service organization personnel (in addition to internal auditors), and third parties working under the direction of management or those charged with governance.

Service Organization's System (Ref: par. .07)

.A11 The policies and procedures referred to in the definition of *service organization's system* refer to the guidelines and activities for providing transaction processing and other services to user entities and include the infrastructure, software, people, and data that support the policies and procedures.

Management and Those Charged With Governance (Ref: par. .08)

.A12 Management and governance structures vary by entity, reflecting influences such as size and ownership characteristics. Such diversity means that it is not possible for this section 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 an 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

.A13 If one or more of the conditions in paragraph .09 are not met and the service auditor is nevertheless required by law or regulation to accept or continue an engagement to report on controls at a service organization, the service auditor is required, in accordance with the requirements in paragraphs .55–.56, to determine the effect on the service auditor's report of one or more of such conditions not being met. (Ref: par. .09)

Capabilities and Competence to Perform the Engagement (Ref: par. .09a)

.A14 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
- Experience in the design and execution of tests of controls and the evaluation of the results

.A15 In performing a service auditor's engagement, the service auditor need not be independent of each user entity. (Ref: par. .09a)

Management's Responsibility for Documenting the Service Organization's System (Ref: par. .09(c)(i))

.A16 Management of the service organization is responsible for documenting the service organization's system. No one particular form of documentation is prescribed and the extent of documentation may vary depending on the size and complexity of the service organization and its monitoring activities.

Reasonable Basis for Management's Assertion (Ref: par. .07, definition of service organization's system; par. .09(c)(ii) and .14(a)(vii))

.A17 Management's monitoring activities may provide evidence of the design and operating effectiveness of controls in support of management's assertion. *Monitoring of controls* is a process to assess the effectiveness of internal control performance 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. Management accomplishes monitoring of controls through ongoing activities, separate evaluations, or a combination of the two. Ongoing monitoring activities are often built into the normal recurring activities of an entity 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 greater the degree and effectiveness of ongoing monitoring, the less need for separate evaluations. Usually, some combination of

ongoing monitoring and separate evaluations will ensure that internal control maintains its effectiveness over time. The service auditor's report on controls is not a substitute for the service organization's own processes to provide a reasonable basis for its assertion.

Identification of Risks (Ref: par. .09(c)(v))

.A18 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. Management is responsible for identifying the risks that threaten achievement of the control objectives stated in management's description of the service organization's system. Management 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, because control objectives relate to risks that controls seek to mitigate, thoughtful identification by management of control objectives when designing, implementing, and documenting the service organization's system may itself comprise an informal process for identifying relevant risks.

Management's Refusal to Provide a Written Assertion

.A19 A recent change in service organization management or the appointment of the service auditor by a party other than management are examples of situations that may cause management to be unwilling to provide the service auditor with a written assertion. However, other members of management may be in a position to, and will agree to, sign the assertion so that the service auditor can meet the requirement of paragraph .09(c)(vii). (Ref: par. .10)

Request to Change the Scope of the Engagement (Ref: par. .12)

.A20 A request to change the scope of the engagement may not have a reasonable justification if, for example, the request is made

- to exclude certain control objectives at the service organization from the scope of the engagement because of the likelihood that the service auditor's opinion would be modified with respect to those control objectives.
- to prevent the disclosure of deviations identified at a subservice organization by requesting a change from the inclusive method to the carve-out method.

.A21 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 because the service organization cannot arrange for access by the service auditor, and the method used for addressing 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: par. .13–.16)

.A22 Section 101 requires a practitioner, among other things, to determine whether the subject matter is capable of evaluation against criteria that are suitable and available to users. As indicated in paragraph .27 of section 101, regardless of who establishes or develops the criteria, management is responsible for selecting the criteria and for determining whether the criteria are

appropriate. The subject matter is the underlying condition of interest to intended users of an attestation 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*
Opinion on the fair presentation of management's description of the service organization's system (type 1 and type 2 reports).	Management's description of the service organization's system that is likely to be relevant to user entities' internal control over financial reporting and is covered by the service auditor's report, and management's assertion about whether the description is fairly presented.	Management's description of the service organization's system is fairly presented if it *a*. presents how the service organization's system was designed and implemented including, as appropriate, the matters identified in paragraph .14(a) and, 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. *b*. does not omit or distort information relevant to the service organization's system, while acknowledging that management's description of the service organization's system 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.	The specific wording of the criteria for this opinion may need to be tailored to be consistent with criteria established by, for example, law, regulation, user groups, or a professional body. Criteria for evaluating management's description of the service organization's system are provided in paragraph .14. Paragraphs .19–.20 and .A31–.A33 offer further guidance on determining whether these criteria are met.

(continued)

	Subject Matter	*Criteria*	*Comment*	
Opinion on suitability of design and operating effectiveness (type 2 reports).	The design and operating effectiveness of the controls that are necessary to achieve the control objectives stated in management's description of the service organization's system.	The controls are suitably designed and operating effectively to achieve the control objectives stated in management's description of the service organization's system if *a*. management has identified the risks that threaten the achievement of the control objectives stated in management's description of the service organization's system. *b*. the controls identified in management's description of the service organization's system would, if operating as described, provide reasonable assurance that those risks would not prevent the control objectives stated in the description from being achieved. *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.	When the criteria for this opinion are met, controls will have provided reasonable assurance that the related control objectives stated in management's description of the service organization's system were achieved throughout the specified period.	The control objectives stated in management's description of the service organization's system are part of the criteria for these opinions. The control objectives stated in the description will differ from engagement to engagement. If the service auditor concludes that the control objectives stated in the description are not fairly presented, then those control objectives would not be suitable as part of the criteria for forming an opinion on the design and operating effectiveness of the controls.

	Subject Matter	*Criteria*	*Comment*
Opinion on suitability of design (type 1 reports).	The suitability of the design of the controls necessary to achieve the control objectives stated in management's description of the service organization's system and relevant to the services covered by the service auditor's report.	The controls are suitably designed to achieve the control objectives stated in management's description of the service organization's system if *a.* management has identified the risks that threaten the achievement of the control objectives stated in its description of the service organization's system. *b.* the controls identified in management's description of the service organization's system would, if operating as described, provide reasonable assurance that those risks would not prevent the control objectives stated in the description from being achieved.	Meeting these criteria does not, of itself, provide any assurance that the control objectives stated in management's description of the service organization's system were achieved because no evidence has been obtained about the operating effectiveness of the controls.

.A23 Paragraph .14(a) identifies a number of elements that are included in management's description of the service organization's 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. (Ref: par. .14)

.A24 The requirement to include in management's description of the service organization's system "other aspects of the service organization's control environment, risk assessment process, information and communication systems (including the related business processes), control activities, and monitoring controls, that are relevant to the services provided" is also applicable to the internal control components of subservice organizations used by the service organization when the inclusive method is used. See AU-C section 315, *Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement*, for a discussion of these components. (Ref: par. .14(a)(vii)) [Revised, December 2012, to reflect conforming changes necessary due to the issuance of SAS Nos. 122–126.]

Materiality (Ref: par. .17)

.A25 In an engagement to report on controls at a service organization, the concept of materiality relates to the information being reported on, not the financial statements of user entities. The service auditor plans and performs procedures to determine whether management's description of the service organization's system is fairly presented, in all material respects; whether controls at the service organization are suitably designed in all material respects to

achieve the control objectives stated in the description; and in the case of a type 2 report, whether controls at the service organization operated effectively throughout the specified period in all material respects to achieve the control objectives stated in the description. The concept of materiality takes into account that the service auditor's report provides information about the service organization's system to meet the common information needs of a broad range of user entities and their auditors who have an understanding of the manner in which the system is being used by a particular user entity for financial reporting.

.A26 Materiality with respect to the fair presentation of management's description of the service organization's system and with respect to the design of controls primarily includes the consideration of qualitative factors; for example, whether

- management's description of the service organization's system includes the significant aspects of the processing of significant transactions.
- management's description of the service organization's system omits or distorts relevant information.
- the controls have the ability, as designed, to provide reasonable assurance that the control objectives stated in management's description of the service organization's system would be achieved.

Materiality with respect to 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 deviations (a qualitative matter).

.A27 The concept of materiality is not applied when disclosing, in the description of the tests of controls, the results of those tests when 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: par. .18)

.A28 Obtaining an understanding of the service organization's system, including related controls, assists the service auditor in the following:

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

.A29 Management's description of the service organization's system includes "aspects of the service organization's control environment, risk assessment process, information and communication systems (including relevant

business processes), control activities and monitoring activities that are relevant to the services provided." Although aspects of the service organization's control environment, risk assessment process, and monitoring activities may not be presented in the description in the context of control objectives, they may nevertheless be necessary to achieve the specified control objectives stated in the description. Likewise, deficiencies in these controls may have an effect on the service auditor's assessment of whether the controls, taken as a whole, were suitably designed or operating effectively to achieve the specified control objectives. See AU-C section 315 for a discussion of these components of internal control. [Revised, December 2012, to reflect conforming changes necessary due to the issuance of SAS Nos. 122–126.]

.A30 The service auditor's procedures to obtain the understanding referred to in paragraph .A28 may include the following:

- Inquiring of management and others within the service organization who, in the service auditor's judgment, may have relevant information
- Observing operations and inspecting documents, reports, and 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 the application of a control

One or more of the preceding procedures may be accomplished through the performance of a walkthrough.

Obtaining Evidence Regarding Management's Description of the Service Organization's System (Ref: par. .19–.20)

.A31 In a service auditor's examination engagement, the service auditor plans and performs the engagement to obtain reasonable assurance of detecting errors or omissions in management's description of the service organization's system and instances in which control objectives were not achieved. Absolute assurance is not attainable because of factors such as the need for judgment, the use of sampling, and the inherent limitations of controls at the service organization that affect whether the description is fairly presented and the controls are suitably designed and operating effectively to achieve the control objectives, and because much of the evidence available to the service auditor is persuasive rather than conclusive in nature. Also, procedures that are effective for detecting unintentional errors or omissions in the description, and instances in which control objectives were not achieved, may be ineffective for detecting intentional errors or omissions in the description and instances in which the control objectives were not achieved that are concealed through collusion between service organization personnel and a third party or among management or employees of the service organization. Therefore, the subsequent discovery of the existence of material omissions or errors in the description or instances in which control objectives were not achieved does not, in and of itself, evidence inadequate planning, performance, or judgment on the part of the service auditor. (Ref: par. .27)

.A32 Considering the following questions may assist the service auditor in determining whether management's description of the service organization's system is fairly presented, in all material respects:

- Does management's description address the major aspects of the service provided and included in 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 AU-C section 315? 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 that it would potentially enable a reader to compromise security or other controls at the service organization.
- Is the description prepared in a manner that does not omit or distort information that might affect the decisions of a broad range of user auditors; for example, does the description contain any significant omissions or inaccuracies regarding processing of which the service auditor is aware?
- Does the description include relevant details of changes to the service organization's system during the period covered by the description when the description covers a period of time?
- Have the controls identified in the description actually been implemented?
- Are complementary user entity controls, if any, adequately described? In most cases, the control objectives stated in the description are worded so that they are capable of being achieved through the effective operation of controls implemented by the service organization alone. In some cases, however, the control objectives stated in the description 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 when, 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. (Ref: par. .19(c))
- 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.

[Revised, December 2012, to reflect conforming changes necessary due to the issuance of SAS Nos. 122–126.]

.A33 The service auditor's procedures to evaluate the fair presentation of management's description of the service organization's system may include the following:

- Considering the nature of the user entities and how the services provided by the service organization are likely to affect them; for example, the predominant types of user entities, and whether the user entities are regulated by government agencies
- Reading contracts 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 documentation of the system; for example, flowcharts and narratives
- Performing walkthroughs of transactions through the service organization's system

.A34 Paragraph .19(a) requires the service auditor to evaluate whether the control objectives stated in management's description of the service organization's system are reasonable in the circumstances. Considering the following questions may assist the service auditor in this evaluation:

- Have the control objectives stated in the description been specified by the service organization or by outside parties, such as regulatory authorities, a user group, a professional body, or others?
- Do the control objectives stated in the description and specified by the service organization 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 (for example, assertions about existence and accuracy that are affected by access controls that prevent or detect unauthorized access to the system)? 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 the services being provided is used to identify the types of assertions to which those controls are likely to relate.
- Are the control objectives stated in the description and specified by the service organization complete? Although 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 assertions commonly embodied in user entities' financial statements, the service auditor ordinarily will not be able to determine how controls at a service organization specifically relate to the assertions embodied in individual user entities' financial statements and cannot, therefore, determine whether control objectives are complete from the viewpoint of individual user entities or user auditors. It is the responsibility of individual user entities or user auditors to assess whether the service organization's description addresses the particular control objectives that are relevant to their needs. If the control objectives are specified by an outside party, including control objectives specified by law or regulation, the outside party is responsible for their completeness and reasonableness. (Ref: par. .19(a))

.A35 The service auditor's procedures to determine whether the system described by the service organization has been implemented may be similar to, and performed in conjunction with, procedures to obtain an understanding of that system. Other procedures that the service auditor may use in combination with inquiry of management and other service organization personnel include observation, inspection of records and other documentation, as well as reperformance of the manner in which transactions are processed through the system and controls are applied. (Ref: par. .19(b) and .20)

Obtaining Evidence Regarding the Design of Controls (Ref: par. .21)

.A36 The risks and control objectives identified in paragraph .21(a) encompass intentional and unintentional acts that threaten the achievement of the control objectives. (Ref: par. .21(a))

.A37 From the viewpoint of a user auditor, a control is suitably designed to achieve the control objectives stated in management's description of the service organization's system 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 auditor, however, is not aware of the circumstances at individual user entities that would affect whether or not a misstatement resulting from a control deficiency 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 the control objective(s) stated in the description of the service organization's system are achieved.

.A38 A service auditor may consider using flowcharts, questionnaires, or decision tables to facilitate understanding the design of the controls.

.A39 Controls may consist of a number of activities directed at the achievement of various control objectives. 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 to achieve the control objective.

Obtaining Evidence Regarding the Operating Effectiveness of Controls (Ref: par. .22–.27)

.A40 From the viewpoint of 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 auditor, however, is not aware of the circumstances at individual user entities that would affect 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 operating effectively if individually or in combination with other controls, it provides reasonable assurance that the control objectives stated in management's description of the service organization's system are achieved. Similarly, 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. (Ref: par. .22)

.A41 Obtaining an understanding of controls sufficient to opine on the suitability of their design is not sufficient evidence regarding their operating effectiveness unless some automation 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 controls such as those over program changes. (Ref: par. .22)

.A42 A type 2 report that covers a period that is less than six months is unlikely to be useful to user entities and their auditors. If management's description of the service organization's system covers a period that is less than six months, the description may describe the reasons for the shorter period and the service auditor's report may include that information as well. Circumstances that may result in a report covering a period of less than six months include the following:

- The service auditor was engaged close to the date by which the report on controls is to be issued, and controls cannot be tested for operating effectiveness for a six month period.
- The service organization or a particular system or application has been in operation for less than six months.
- 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. (Ref: par. .23)

.A43 Evidence about the satisfactory operation of controls in prior periods does not provide evidence of the operating effectiveness of controls during the current period. The service auditor expresses an opinion on the effectiveness of controls throughout each period; therefore, sufficient appropriate evidence about the operating effectiveness of controls throughout the current period is required for the service auditor to express that opinion for the current period. Knowledge of deviations observed in prior engagements may, however, lead the service auditor to increase the extent of testing during the current period. (Ref: par. .22)

.A44 Determining the effect of changes in the service organization's controls that were implemented during the period covered by the service auditor's report involves gathering information about the nature and extent of such changes, how they affect processing at the service organization, and how they might affect assertions in the user entities' financial statements. (Ref: par. .14(b) and .23)

.A45 Certain controls may not leave evidence of their operation that can be tested at a later date and, accordingly, the service auditor may find it appropriate to test the operating effectiveness of such controls at various times throughout the reporting period. (Ref: par. .22)

Using the Work of an Internal Audit Function

Obtaining an Understanding of the Internal Audit Function (Ref: par. .28)

.A46 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 internal control or activities related to the services and systems, including controls that the service organization provides to user entities.

.A47 The scope and objectives of an internal audit function vary widely and depend on the size and structure of the service organization and the requirements of management and those charged with governance. Internal audit function activities may include one or more of the following:

- Monitoring the service organization's internal control or the application processing systems. This may include controls relevant to the services provided to user entities. The internal audit function may be assigned specific responsibility for reviewing controls, monitoring their operation, and recommending improvements thereto.
- Examination of financial and operating information. The internal audit function may be assigned to review the means by which the service organization identifies, measures, classifies, and reports financial and operating information; to make inquiries about specific matters; and to perform other procedures including detailed testing of transactions, balances, and procedures.
- Evaluation of the economy, efficiency, and effectiveness of operating activities including nonfinancial activities of the service organization.
- Evaluation of compliance with laws, regulations, and other external requirements and with management policies, directives, and other internal requirements.

Using the Work of the Internal Audit Function (Ref: par .31–.32)

.A48 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 tend to mitigate), the evaluation of the internal audit function, and the evaluation of the specific work of the internal auditors. Such procedures may include the following:

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

Effect on the Service Auditor's Report (Ref: par. .33–.34)

.A49 The responsibility to report on management's description of the service organization's system and the suitability of the design and operating effectiveness of controls rests solely with the service auditor and cannot be shared with the internal audit function. Therefore, the judgments about the significance of deviations in the design or operating effectiveness of controls, the sufficiency of tests performed, the evaluation of identified deficiencies, and other matters affecting the service auditor's report are those of the service auditor. In making judgments about the extent of the effect of the work of the internal audit function on the service auditor's procedures, the service auditor may determine, based on risk associated with the controls and the significance of the judgments relating to them, that the service auditor will perform the work relating to some or all of the controls rather than using the work performed by the internal audit function.

.A50 In the case of a type 2 report, when the work of the internal audit function has been used in performing tests of controls, the service auditor's description of that work and of the service auditor's procedures with respect to that work may be presented in a number of ways, for example, (Ref: par. .34 and .52(o)(i))

- 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: par. .36–.39)

.A51 Written representations reaffirming the service organization's assertion about the effective operation of controls may be based on ongoing monitoring activities, separate evaluations, or a combination of the two. (Ref: par. .A12)

.A52 In certain circumstances, a service auditor may obtain written representations from parties in addition to management of the service organization, such as those charged with governance.

.A53 The written representations required by paragraph .36 are separate from and in addition to the assertion included in or attached to management's description of the service organization's system required by paragraph .09(c)(vii).

.A54 If the service auditor is unable to obtain written representations regarding relevant control objectives and related controls at the subservice organization, management of the service organization would be unable to use the inclusive method but could use the carve-out method.

.A55 In addition to the written representations required by paragraph .36, the service auditor may consider it necessary to request other written representations.

Other Information

.A56 The "other information" referred to in paragraphs .40–.41 may be the following:

- Information provided by the service organization and included in a section of the service auditor's type 1 or type 2 report, or
- Information outside the service auditor's type 1 or type 2 report included in a document that contains the service auditor's report. This other information may be provided by the service organization or by another party. (Ref: par. .40, .52(c)(ii)–(iii), and .53(c)(ii)–(iii))

.A57 If other information included in a document containing management's description of the service organization's system and the service auditor's report contains future-oriented information that cannot be reasonably substantiated, the service auditor may request that the information be removed or revised. (Ref: par. .41)

Documentation

.A58 Paragraph 57 of Statement on Quality Control Standards No. 8, *A Firm's System of Quality Control*, requires the firm to establish policies and procedures that address engagement performance, supervision responsibilities, and review responsibilities. The requirement to document who reviewed the work performed and the extent of the review, in accordance with the firm's policies and procedures addressing review responsibilities, does not imply a need for each specific working paper to include evidence of review. The requirement, however, means documenting what work was reviewed, who reviewed such work, and when it was reviewed. (Ref: par. .44)

Preparing the Service Auditor's Report

Content of the Service Auditor's Report (Ref: par. .52–.53)

.A59 Examples of service auditors' reports are presented in appendixes A–C and illustrative assertions by management of the service organization are presented in exhibit A.

.A60 The service organization's assertion may be presented in management's description of the service organization's system or may be attached to the description. (Ref: par. .52(e) and .53(e))

Use of the Service Auditor's Report (Ref: par. .52(p) and .53(o))

.A61 Paragraph .79 of section 101 requires that the use of a practitioner's report be restricted to specified parties when the criteria used to evaluate or measure the subject matter are available only to specified parties or appropriate only for a limited number of parties who either participated in their establishment or can be presumed to have an adequate understanding of the criteria. The criteria used for engagements to report on controls at a service organization are relevant only for the purpose of providing information about the service organization's system, including controls, to those who have an understanding of how the system is used for financial reporting by user entities and, accordingly, the service auditor's report states that the report and the description of tests of controls are intended only for use by management of the service organization, user entities of the service organization ("during some or all of the period covered by the report" for a type 2 report, and "as of the ending date of the period covered by the report" for a type 1 report), and their user auditors. (The illustrative service auditor's reports in appendix A illustrate language for a paragraph restricting the use of a service auditor's report.)

.A62 Paragraph .79 of section 101 indicates that the need for restriction on the use of a report may result from a number of circumstances, including the potential for the report to be misunderstood when taken out of the context in which it was intended to be used, and the extent to which the procedures performed are known or understood.

.A63 Although a service auditor is not responsible for controlling a service organization's distribution of a service auditor's report, a service auditor may inform the service organization of the following:

- A service auditor's type 1 report is not intended for distribution to parties other than the service organization, user entities of the service organization's system as of the end of the period covered by the service auditor's report, and their user auditors.
- A service auditor's type 2 report is not intended for distribution to parties other than the service organization, user entities of the service organization's system during some or all of the period covered by the service auditor's report, and their user auditors.

.A64 A user entity is also considered a user entity of the service organization's subservice organizations if controls at subservice organizations are relevant to internal control over financial reporting of the user entity. In such case, the user entity is referred to as an indirect or downstream user entity of the subservice organization. Consequently, an indirect or downstream user entity may be included in the group to whom use of the service auditor's report is restricted if controls at the service organization are relevant to internal control over financial reporting of such indirect or downstream user entity.

Description of the Service Auditor's Tests of Controls and the Results Thereof (Ref: par. .52(o)(ii))

.A65 In describing the service auditor's tests of controls for a type 2 report, it assists readers if the service auditor's report includes information about causative factors for identified deviations, to the extent the service auditor has identified such factors.

Modified Opinions (Ref: par. .55–.57)

.A66 Examples of elements of modified service auditor's reports are presented in appendix B.

Other Communication Responsibilities (Ref: par. .58)

.A67 Actions that a service auditor may take when he or she becomes aware of noncompliance with laws and regulations, fraud, or uncorrected errors at the service organization (after giving additional consideration to instances in which the service organization has not appropriately communicated this information to affected user entities, and the service organization is unwilling to do so) include the following:

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

.A68

Appendix A: Illustrative Service Auditor's Reports

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

Example 1: Type 2 Service Auditor's Report

Independent Service Auditor's Report on a Description of a Service Organization's System and the Suitability of the Design and Operating Effectiveness of Controls

To: XYZ Service Organization

Scope

We have examined XYZ Service Organization's description of its [*type or name of*] system for processing user entities' transactions [*or identification of the function performed by the system*] throughout the period [*date*] to [*date*] (description) and the suitability of the design and operating effectiveness of controls to achieve the related control objectives stated in the description.

Service organization's responsibilities

On page XX of the description, XYZ Service Organization has provided an assertion about the fairness of the presentation of the description and suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the description. XYZ Service Organization is responsible for preparing the description and for the assertion, including the completeness, accuracy, and method of presentation of the description and the assertion, providing the services covered by the description, specifying the control objectives and stating them in the description, identifying the risks that threaten the achievement of the control objectives, selecting the criteria, and designing, implementing, and documenting controls to achieve the related control objectives stated in the description.

Service auditor's responsibilities

Our responsibility is to express an opinion on the fairness of the presentation of the description and on the suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the description, based on our examination. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform our examination to obtain reasonable assurance about whether, in all material respects, the description is fairly presented and the controls were suitably designed and operating effectively to achieve the related control objectives stated in the description throughout the period [*date*] to [*date*].

An examination of a description of a service organization's system and the suitability of the design and operating effectiveness of the service organization's controls to achieve the related control objectives stated in the description involves performing procedures to obtain evidence about the fairness of the presentation of the description and the suitability of the design and operating effectiveness of those controls to achieve the related control objectives stated in the description. Our procedures included assessing the risks that the description is not fairly presented and that the controls were not suitably designed

or operating effectively to achieve the related control objectives stated in the description. Our procedures also included testing the operating effectiveness of those controls that we consider necessary to provide reasonable assurance that the related control objectives stated in the description were achieved. An examination engagement of this type also includes evaluating the overall presentation of the description and the suitability of the control objectives stated therein, and the suitability of the criteria specified by the service organization and described at page *[aa]*. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

Inherent limitations

Because of their nature, controls at a service organization may not prevent, or detect and correct, all errors or omissions in processing or reporting transactions [*or identification of the function performed by the system*]. Also, the projection to the future of any evaluation of the fairness of the presentation of the description, or conclusions about the suitability of the design or operating effectiveness of the controls to achieve the related control objectives is subject to the risk that controls at a service organization may become inadequate or fail.

Opinion

In our opinion, in all material respects, based on the criteria described in XYZ Service Organization's assertion on page [*aa*],

a. the description fairly presents the [*type or name of*] system that was designed and implemented throughout the period [*date*] to [*date*].

b. the controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period [*date*] to [*date*].

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 [*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*].

Restricted use

This report, including the description of tests of controls and results thereof on pages [*yy–zz*], is intended solely for the information and use of XYZ Service Organization, user entities of XYZ Service Organization's [*type or name of*] system during some or all of the period [*date*] to [*date*], and the independent auditors of such user entities, who have a sufficient understanding to consider it, along with other information including information about controls implemented by user entities themselves, when assessing the risks of material misstatements of user entities' financial statements. This report is not intended to be and should not be used by anyone other than these specified parties.

[*Service auditor's signature*]

[*Date of the service auditor's report*]

[*Service auditor's city and state*]

Following is a modification of the scope paragraph in a type 2 service auditor's report if the description refers to the need for complementary user entity controls. (New language is shown in boldface italics):

> We have examined XYZ Service Organization's description of its [*type or name of*] system for processing user entities' transactions [*or identification of the function performed by the system*] throughout the period [*date*] to [*date*] (description) and the suitability of the design and operating effectiveness of controls to achieve the related control objectives stated in the description. ***The description indicates that certain control objectives specified in the description can be achieved only if complementary user entity controls contemplated in the design of XYZ Service Organization's controls are suitably designed and operating effectively, along with related controls at the service organization. We have not evaluated the suitability of the design or operating effectiveness of such complementary user entity controls.***

Following is a modification of the applicable subparagraphs of the opinion paragraph of a type 2 service auditor's report if the application of complementary user entity controls is necessary to achieve the related control objectives stated in the description of the service organization's system (New language is shown in boldface italics):

b. The controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that those control objectives would be achieved if the controls operated effectively throughout the period [*date*] to [*date*] ***and user entities applied the complementary user entity controls contemplated in the design of XYZ Service Organization's controls throughout the period [date] to [date]***.

c. The controls tested, which ***together with the complementary user entity controls referred to in the scope paragraph of this report, if operating effectively,*** were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period [*date*] to [*date*].

Following is a modification of the paragraph that describes the responsibilities of management of the service organization for use in a type 2 service auditor's report when the control objectives have been specified by an outside party. (New language is shown in boldface italics):

> On page XX of the description, XYZ Service Organization has provided an assertion about the fairness of the presentation of the description and suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the description. XYZ Service Organization is responsible for preparing the description and for its assertion], including the completeness, accuracy, and method of presentation of the description and assertion, providing the services covered by the description, selecting the criteria, and designing, implementing, and documenting controls to achieve the related control objectives stated in the description. ***The control objectives have been specified by [name of party specifying the control objectives] and are stated on page [aa] of the description***.

Example 2: Type 1 Service Auditor's Report

Independent Service Auditor's Report on a Description of a Service Organization's System and the Suitability of the Design of Controls

To: XYZ Service Organization

Scope

We have examined XYZ Service Organization's description of its [*type or name of*] system for processing user entities' transactions [*or identification of the function performed by the system*] as of [*date*], and the suitability of the design of controls to achieve the related control objectives stated in the description.

Service organization's responsibilities

On page XX of the description, XYZ Service Organization has provided an assertion about the fairness of the presentation of the description and suitability of the design of the controls to achieve the related control objectives stated in the description. XYZ Service Organization is responsible for preparing the description and for its assertion, including the completeness, accuracy, and method of presentation of the description and the assertion, providing the services covered by the description, specifying the control objectives and stating them in the description, identifying the risks that threaten the achievement of the control objectives, selecting the criteria, and designing, implementing, and documenting controls to achieve the related control objectives stated in the description.

Service auditor's responsibilities

Our responsibility is to express an opinion on the fairness of the presentation of the description and on the suitability of the design of the controls to achieve the related control objectives stated in the description, based on our examination. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform our examination to obtain reasonable assurance, in all material respects, about whether the description is fairly presented and the controls were suitably designed to achieve the related control objectives stated in the description as of [*date*].

An examination of a description of a service organization's system and the suitability of the design of the service organization's controls to achieve the related control objectives stated in the description involves performing procedures to obtain evidence about the fairness of the presentation of the description of the system and the suitability of the design of the controls to achieve the related control objectives stated in the description. Our procedures included assessing the risks that the description is not fairly presented and that the controls were not suitably designed to achieve the related control objectives stated in the description. An examination engagement of this type also includes evaluating the overall presentation of the description and the suitability of the control objectives stated therein, and the suitability of the criteria specified by the service organization and described at page *[aa]*.

We did not perform any procedures regarding the operating effectiveness of the controls stated in the description and, accordingly, do not express an opinion thereon.

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

Inherent limitations

Because of their nature, controls at a service organization may not prevent, or detect and correct, all errors or omissions in processing or reporting transactions [*or identification of the function performed by the system*]. The projection

to the future of any evaluation of the fairness of the presentation of the description, or any conclusions about the suitability of the design of the controls to achieve the related control objectives is subject to the risk that controls at a service organization may become ineffective or fail.

Opinion

In our opinion, in all material respects, based on the criteria described in XYZ Service Organization's assertion,

a. the description fairly presents the [*type or name of*] system that was designed and implemented as of [*date*], and

b. the controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively as of [*date*].

Restricted use

This report is intended solely for the information and use of XYZ Service Organization, user entities of XYZ Service Organization's [*type or name of*] system as of [*date*], and the independent auditors of such user entities, who have a sufficient understanding to consider it, along with other information including information about controls implemented by user entities themselves, when obtaining an understanding of user entities information and communication systems relevant to financial reporting. This report is not intended to be and should not be used by anyone other than these specified parties.

[*Service auditor's signature*]

[*Date of the service auditor's report*]

[*Service auditor's city and state*]

Following is a modification of the scope paragraph in a type 1 report if the description of the service organization's system refers to the need for complementary user entity controls. (New language is shown in boldface italics)

> We have examined XYZ Service Organization's description of its [type or name of] system (description) made available to user entities of the system for processing their transactions [or identification of the function performed by the system] as of [date], and the suitability of the design of controls to achieve the related control objectives stated in the description. ***The description indicates that certain complementary user entity controls must be suitably designed and implemented at user entities for related controls at the service organization to be considered suitably designed to achieve the related control objectives. We have not evaluated the suitability of the design or operating effectiveness of such complementary user entity controls.***

Following is a modification of the applicable subparagraph in the opinion paragraph of a type 1 report if the application of complementary user entity controls is necessary to achieve the related control objectives stated in management's description of the service organization's system (New language is shown in boldface italics):

b. The controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that those control objectives would be achieved if the controls operated effectively as of [*date*] ***and user entities applied the complementary user entity controls contemplated in the design of XYZ Service Organization's controls as of [date].***

Following is a modification of the paragraph that describes management of XYZ Service Organization's responsibilities to be used in a type 1 report when the control objectives have been specified by an outside party. (New language is shown in boldface italics):

> On page XX of the description, XYZ Service Organization has provided an assertion about the fairness of the presentation of the description and suitability of the design of the controls to achieve the related control objectives stated in the description. XYZ Service Organization is responsible for preparing the description and assertion, including the completeness, accuracy, and method of presentation of the description and assertion, providing the services covered by the description, selecting the criteria, and designing, implementing, and documenting controls to achieve the related control objectives stated in the description. ***The control objectives have been specified by [name of party specifying the control objectives] and are stated on page [aa] of the description***.

.A69

Appendix B: Illustrative Modified Service Auditor's Reports

The following examples of modified service auditor's reports are for guidance only and are not intended to be exhaustive or applicable to all situations. They are based on the illustrative reports in appendix A.

Example 1: Qualified Opinion for a Type 2 Report—The Description of the Service Organization's System is Not Fairly Presented in All Material Respects

The following is an illustrative paragraph describing the basis for the qualified opinion. The paragraph would be inserted before the modified opinion paragraph. All other report paragraphs are unchanged.

Basis for qualified opinion

The accompanying description states on page [*mn*] that XYZ Service Organization uses operator identification numbers and passwords to prevent unauthorized access to the system. Based on 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 are not required to access the system in applications C and D.

Opinion

In our opinion, except for the matter described in the preceding paragraph, and based on the criteria described in XYZ Service Organization's assertion on page *[aa]*, in all material respects. . .

Example 2: Qualified Opinion—The Controls are Not Suitably Designed to Provide Reasonable Assurance That the Control Objectives Stated in the Description of the Service Organization's System Would be Achieved if the Controls Operated Effectively

The following is an illustrative paragraph describing the basis for the qualified opinion. The paragraph would be inserted before the modified opinion paragraph. All other report paragraphs are unchanged.

Basis for qualified opinion

As discussed on 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 also are no specified requirements to test such changes or provide test results to an authorized reviewer prior to implementing the changes. As a result the controls are not suitably designed to achieve the control objective, "Controls provide reasonable assurance that changes to existing applications are authorized, tested, approved, properly implemented, and documented."

Opinion

In our opinion, except for the matter described in the preceding paragraph, and based on the criteria described in XYZ Service Organization's assertion on page *[aa]*, in all material respects. . .

Example 3: Qualified Opinion for a Type 2 Report—The Controls Did Not Operate Effectively Throughout the Specified Period to Achieve the Control Objectives Stated in the Description of the Service Organization's System

The following is an illustrative paragraph describing the basis for the qualified opinion. The paragraph would be inserted before the modified opinion paragraph. All other report paragraphs are unchanged.

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 various output reports. However, as noted on page [*mn*] of the description of tests of controls and results thereof, this control was not operating effectively throughout the period [*date*] to [*date*] due to a programming error. This resulted in the nonachievement of the control objective, "Controls provide reasonable assurance that loan payments received are properly recorded" throughout the period January 1, 20X1, to April 30, 20X1. XYZ Service Organization implemented a change to the program performing the calculation as of May 1, 20X1, and our tests indicate that it was operating effectively throughout the period May 1, 20X1, to December 31, 20X1.

Opinion

In our opinion, except for the matter described in the preceding paragraph, and based on the criteria described in XYZ Service Organization's assertion on page [*aa*], in all material respects. . . .

Example 4: Qualified Opinion—The Service Auditor is Unable to Obtain Sufficient Appropriate Evidence

The following is an illustrative paragraph describing the basis for the qualified opinion. The paragraph would be inserted before the modified opinion paragraph. All other report paragraphs are unchanged.

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 [*date*] to [*date*] were deleted as a result of a computer processing error and, therefore, we were 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" was achieved throughout the period [*date*] to [*date*].

Opinion

In our opinion, except for the matter described in the preceding paragraph, and based on the criteria described in XYZ Service Organization's assertion on page [*aa*], in all material respects. . .

.A70

Appendix C: Illustrative Report Paragraphs for Service Organizations That Use a Subservice Organization

Following are modifications of the illustrative type 2 report in example 1 of appendix A for use in engagements in which the service organization uses a subservice organization. (New language is shown in boldface italics; deleted language is shown by strikethrough.)

Example 1: Carve-Out Method

Scope

We have examined XYZ Service Organization's description of its system for processing user entities' transactions [*or identification of the function performed by the system*] throughout the period [*date*] to [*date*] (description) and the suitability of the design and operating effectiveness of controls to achieve the related control objectives stated in the description.

XYZ Service Organization uses a computer processing service organization for all of its computerized application processing. The description on pages [bb–cc] includes only the controls and related control objectives of XYZ Service Organization and excludes the control objectives and related controls of the computer processing service organization. Our examination did not extend to controls of the computer processing service organization.

All other report paragraphs are unchanged.

Example 2: Inclusive Method

Scope

We have examined XYZ Service Organization's ***and ABC Subservice Organization's*** description of ~~its~~ ***their*** [*type or name of*] system for processing user entities' transactions [*or identification of the function performed by the system*] throughout the period [*date*] to [*date*] (description) and the suitability of the design and operating effectiveness of ***XYZ Service Organization's and ABC Subservice Organization's*** controls to achieve the related control objectives stated in the description. ***ABC Subservice Organization is an independent service organization that provides computer processing services to XYZ Service Organization. XYZ Service Organization's description includes a description of ABC Subservice Organization's*** **[type or name of]** ***system used by XYZ Service Organization to process transactions for its user entities, as well as relevant control objectives and controls of ABC Subservice Organization.***

XYZ Service Organization's responsibilities

On page XX of the description, XYZ Service Organization ***and ABC Subservice Organization*** ~~has~~ ***have*** provided ~~an~~ ***their*** assertion***s*** about the fairness of the presentation of the description and suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the description. XYZ Service Organization ***and ABC Subservice Organization are*** ~~is~~ responsible for preparing the description and assertion***s***, including the completeness, accuracy, and method of presentation of the description and assertion***s***, providing the services covered by the description, specifying the control objectives and stating them in the description, identifying the risks that threaten the achievement of the control objectives, selecting the criteria,

and designing, implementing, and documenting controls to achieve the related control objectives stated in the description.

Inherent limitations

Because of their nature, controls at a service organization ***or subservice organization*** may not prevent, or detect and correct, all errors or omissions in processing or reporting transactions. Also, the projection to the future of any evaluation of the fairness of the presentation of the description or any conclusions about the suitability of the design or operating effectiveness of the controls to achieve the related control objectives is subject to the risk that controls at a service organization ***or subservice organization*** may become ineffective or fail.

Opinion

In our opinion, in all material respects, based on the criteria specified in XYZ Service Organization**'s and ABC Subservice Organization's** assertions on page [*aa*],

a. the description fairly presents ***XYZ Service Organization's*** ~~the~~ [*type or name of*] system ***and ABC Subservice Organization's [type or name of] system used by XYZ Service Organization to process transactions for its user entities [or identification of the function performed by the service organization's system]*** that ***were*** ~~was~~ designed and implemented throughout the period [*date*] to [*date*].

b. the controls related to the control objectives ***of XYZ Service Organization and ABC Subservice Organization*** stated in the description were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period [*date*] to [*date*].

c. the controls ***of XYZ Service Organization and ABC Subservice Organization that*** we tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period [*date*] to [*date*].

All other report paragraphs are unchanged.

.A71

Exhibit A: Illustrative Assertions by Management of a Service Organization

The assertion by management of the service organization may be included in management's description of the service organization's system or may be attached to the description. The following illustrative assertions are intended for assertions that are included in the description.

The following illustrative management assertions are for guidance only and are not intended to be exhaustive or applicable to all situations.

Example 1: Assertion by Management of a Service Organization for a Type 2 Report

XYZ Service Organization's Assertion

We have prepared the description of XYZ Service Organization's [*type or name of*] system (description) for user entities of the system during some or all of the period [*date*] to [*date*], and their user auditors who have a sufficient understanding to consider it, along with other information, including information about controls implemented by user entities of the system themselves, when assessing the risks of material misstatements of user entities' financial statements. We confirm, to the best of our knowledge and belief, that

a. the description fairly presents the [*type or name of*] system made available to user entities of the system during some or all of the period [*date*] to [*date*] for processing their transactions [*or identification of the function performed by the system*]. The criteria we used in making this assertion were that the description

i. presents how the system made available to user entities of the system was designed and implemented to process relevant transactions, including

(1) the classes of transactions processed.

(2) the procedures, within both automated and manual systems, by which those transactions are initiated, authorized, recorded, processed, corrected as necessary, and transferred to the reports presented to user entities of the system.

(3) the related accounting records, supporting information, and specific accounts that are used to initiate, authorize, record, process, and report transactions; this includes the correction of incorrect information and how information is transferred to the reports presented to user entities of the system.

(4) how the system captures and addresses significant events and conditions, other than transactions.

(5) the process used to prepare reports or other information provided to user entities' of the system.

(6) specified control objectives and controls designed to achieve those objectives.

(7) other aspects of our control environment, risk assessment process, information and communication systems (including the related business processes), control activities, and monitoring controls that are relevant to processing and reporting transactions of user entities of the system.

ii. does not omit or distort information relevant to the scope of the [*type or name of*] system, while acknowledging that the description is prepared to meet the common needs of a broad range of user entities of the system and the independent auditors of those user entities, and may not, therefore, include every aspect of the [*type or name of*] system that each individual user entity of the system and its auditor may consider important in its own particular environment.

b. the description includes relevant details of changes to the service organization's system during the period covered by the description when the description covers a period of time.

c. the controls related to the control objectives stated in the description were suitably designed and operated effectively throughout the period [*date*] to [*date*] to achieve those control objectives. The criteria we used in making this assertion were that

i. the risks that threaten the achievement of the control objectives stated in the description have been identified by the service organization;

ii. the controls identified in the description would, if operating as described, provide reasonable assurance that those risks would not prevent the control objectives stated in the description from being achieved; and

iii. the controls were consistently applied as designed, including whether manual controls were applied by individuals who have the appropriate competence and authority.

Example 2: Assertion by Management of a Service Organization for a Type 1 Report

XYZ Service Organization's Assertion

We have prepared the description of XYZ Service Organization's [*type or name of*] system (description) for user entities of the system as of [*date*], and their user auditors who have a sufficient understanding to consider it, along with other information including information about controls implemented by user entities themselves, when obtaining an understanding of user entities' information and communication systems relevant to financial reporting. We confirm, to the best of our knowledge and belief, that

a. the description fairly presents the [*type or name of*] system made available to user entities of the system as of [*date*] for processing their transactions [*or identification of the function performed by the system*]. The criteria we used in making this assertion were that the description

i. presents how the system made available to user entities of the system was designed and implemented to process relevant transactions, including

(1) the classes of transactions processed.

(2) the procedures, within both automated and manual systems, by which those transactions are initiated, authorized, recorded, processed, corrected as necessary, and transferred to the reports presented to user entities of the system.

(3) the related accounting records, supporting information, and specific accounts that are used to initiate, authorize, record, process, and report transactions; this includes the correction of incorrect information and how information is transferred to the reports provided to user entities of the system.

(4) how the system captures and addresses significant events and conditions, other than transactions.

(5) the process used to prepare reports or other information provided to user entities of the system.

(6) specified control objectives and controls designed to achieve those objectives.

(7) other aspects of our control environment, risk assessment process, information and communication systems (including the related business processes), control activities, and monitoring controls that are relevant to processing and reporting transactions of user entities of the system.

ii. does not omit or distort information relevant to the scope of the [*type or name of*] system, while acknowledging that the description is prepared to meet the common needs of a broad range of user entities of the system and the independent auditors of those user entities, and may not, therefore, include every aspect of the [*type or name of*] system that each individual user entity of the system and its auditor may consider important in its own particular environment.

b. the controls related to the control objectives stated in the description were suitably designed as of [*date*] to achieve those control objectives. The criteria we used in making this assertion were that

i. the risks that threaten the achievement of the control objectives stated in the description have been identified by the service organization.

ii. the controls identified in the description would, if operating as described, provide reasonable assurance that those risks would not prevent the control objectives stated in the description from being achieved.

.A72

Exhibit B: Comparison of Requirements of Section 801, *Reporting On Controls at a Service Organization*, With Requirements of International Standard on Assurance Engagements 3402, *Assurance Reports on Controls at a Service Organization*

This analysis was prepared by the AICPA Audit and Attest Standards staff to highlight substantive differences between section 801, *Reporting on Controls at a Service Organization*, and International Standard on Assurance Engagements (ISAE) 3402, *Assurance Reports on Controls at a Service Organization*, and to explain the rationale for those differences. This analysis is not authoritative and is prepared for informational purposes only.

1. Intentional Acts by Service Organization Personnel

Paragraph .26 of this section requires the service auditor to investigate the nature and cause of any deviations identified, as does paragraph 28 of ISAE 3402. Paragraph .27 of this section indicates that if the service auditor becomes aware that the deviations resulted from intentional acts by service organization personnel, the service auditor should assess the risk that the description of the service organization's system is not fairly presented and that the controls are not suitably designed or operating effectively. The ISAE does not contain the requirement included in paragraph .27 of this section. The Auditing Standards Board (ASB) believes that information about intentional acts affects the nature, timing, and extent of the service auditor's procedures. Therefore, paragraph .27 provides follow-up action for the service auditor when he or she obtains information about intentional acts as a result of performing the procedures in paragraph .26 of this section.

Paragraph .36(c)(ii) of this section, which is not included in ISAE 3402, also requires the service auditor to request written representations from management that it has disclosed to the service auditor knowledge of any actual, suspected, or alleged intentional acts by management or the service organization's employees, of which it is aware, that could adversely affect the fairness of the presentation of management's description of the service organization's system or the completeness or achievement of the control objectives stated in the description.

2. Anomalies

Paragraph 29 of ISAE 3402 contains a requirement that enables a service auditor to conclude that a deviation identified in tests of controls involving sampling is not representative of the population from which the sample was drawn. This section does not include this requirement because of concerns about use of terms such as, "in the extremely rare circumstances" and "a high degree of certainty." These terms are not used in U.S professional standards and the ASB believes their introduction in this section could have unintended consequences. The ASB also believes that the deletion of this requirement will enhance examination quality because deviations identified by the service auditor in tests of controls involving sampling will be treated in the same manner as any other deviation identified by the practitioner, rather than as an anomaly.

3. Direct Assistance

Paragraph .35 of this section requires the service auditor to adapt and apply the requirements in paragraph .27 of AU-C section 610, *The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements*, when the service auditor uses members of the service organization's internal audit function to provide direct assistance. Because AU-C section 610 provides for an auditor to use the work of the internal audit function in a direct assistance capacity, paragraph .35 of this section also provides for this. The International Standards on Auditing and the ISAEs do not provide for use of the internal audit function for direct assistance.

4. Subsequent Events

With respect to events that occur subsequent to the period covered by the description of the service organization's system up to the date of the service auditor's report, paragraph .42 of this section requires the service auditor to disclose in the service auditor's report, if not disclosed by management in its description, any event that is of such a nature and significance that its disclosure is necessary to prevent users of a type 1 or type 2 report from being misled. The ASB believes that information about such events could be important to user entities and their auditors. ISAE 3402 limits the types of subsequent events that would need to be disclosed in the service auditor's report to those that could have a significant effect on the service auditor's report.

Paragraph .43 of this section requires the service auditor to adapt and apply the guidance in AU-C section 560, *Subsequent Events and Subsequently Discovered Facts*, if, after the release of the service auditor's report, the service auditor becomes aware of conditions that existed at the report date that might have affected management's assertion and the service auditor's report had the service auditor been aware of them. The ISAE does not include a similar requirement. The ASB believes that, by analogy, AU-C section 560 provides needed guidance to a service auditor by presenting the various circumstances that could occur during the subsequent events period and the actions a service auditor should take.

5. Statement Restricting Use of the Service Auditor's Report

This section requires the service auditor's report to include a statement restricting the use of the report to management of the service organization, user entities of the service organization's system, and user auditors. The ASB believes that the unambiguous language in the restricted use statement prevents misunderstanding regarding who the report is intended for. Paragraphs .A61–.A62 of this section explain the reasons for restricting the use of the report. ISAE 3402 requires the service auditor's report to include a statement indicating that the report is intended only for user entities and their auditors, However, the ISAE does not require the inclusion of a statement restricting the use of the report to specified parties, although it does not prohibit the inclusion of restricted use language in the report.

6. Documentation Completion

Paragraph 50 of the ISAE requires the service auditor to 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. Paragraph .49 of this section also requires the service auditor to assemble the engagement documentation in an engagement

file and complete the administrative process of assembling the final engagement file on a timely basis, but also indicates that a timely basis is no later than 60 days following the service auditor's report release date. The ASB made this change to parallel the definition of *documentation completion date* in paragraph .06 of AU-C section 230, *Audit Documentation*.

7. Engagement Acceptance and Continuance

Paragraph .09 of this section establishes conditions for the acceptance and continuance of an engagement to report on controls at a service organization. One of the conditions is that management acknowledge and accept responsibility for providing the service auditor with written representations at the conclusion of the engagement. ISAE 3402 does not include this requirement as a condition of engagement acceptance and continuance.

8. Disclaimer of Opinion

If management does not provide the service auditor with certain written representations, paragraph 40 of ISAE 3402 requires the service auditor, after discussing the matter with management, to disclaim an opinion. In the same circumstances, paragraph .39 of this section requires the service auditor to take appropriate action, which may include disclaiming an opinion or withdrawing from the engagement.

Paragraphs .56–.57 of this section contain certain incremental requirements when the service auditor plans to disclaim an opinion.

9. Elements of the Section 801 Report That Are Not Required in the ISAE 3402 Report

Paragraphs .52–.53 of this section contain certain requirements regarding the content of the service auditor's report, which are incremental to those in ISAE 3402. These incremental requirements are included in paragraphs .52(c)(iii); .52(e)(iv); .52(i); and .52(k) for type 2 reports, and in paragraphs .53(c)(iii); .53(e)(iv); .53(j); and .53(k) for type 1 reports.

[Revised, December 2012, to reflect conforming changes necessary due to the issuance of SAS Nos. 122–126.]