

Invitation to Comment

Assurance Reports on Controls at a Third Party Service Organization

prepared by:
Auditing and Assurance Standards Board

Comments are requested by May 5, 2008

AASB

INVITATION TO COMMENT ASSURANCE REPORTS ON CONTROLS AT A THIRD PARTY SERVICE ORGANIZATION

The Auditing and Assurance Standards Board (AASB) is issuing this Invitation to Comment to obtain input from Canadian stakeholders on a proposed new International Standard on Assurance Engagements (ISAE 3402), *Assurance Reports on Controls at a Third Party Service Organization*. The International Auditing and Assurance Standards Board (IAASB) has recently issued an exposure draft of this ISAE.

Purpose

While the AASB is committed to adopting the International Standards on Auditing (ISAs), including proposed ISA 402, *Audit Considerations Relating to an Entity Using a Third Party Service Organization*, it has not yet decided whether to adopt other international standards dealing with assurance and related service engagements. At this time, the AASB is not issuing an exposure draft of a Canadian Assurance Engagement Standard (CAES) to adopt ISAE 3402. The AASB will consider input received from stakeholders on the IAASB's Exposure Draft of ISAE 3402 in deciding what changes, if any, to make to the comparable CICA Handbook – Assurance Section 5970 AUDITOR'S REPORT ON CONTROLS AT A SERVICE ORGANIZATION, and AuG-42, "Service Organizations that use other Service Organizations." One possibility is to replace them at a future date by adopting ISAE 3402 for use in Canada. Any proposed amended or new Canadian assurance standard or practice statement would go through due process, including public exposure.

Relationship between ISAE 3402 and ISA 402

ISAE 3402 was developed as a complement to ISA 402. The IAASB has issued an Exposure Draft of proposed ISA 402 and the AASB has issued a corresponding Exposure Draft for CAS 402, for comment. The scope paragraphs of proposed CAS 402 state that the auditor of a user entity is not precluded from using a service auditor's report that has been prepared under recognized national standards, provided the user auditor is satisfied that the report provides sufficient and appropriate audit evidence. For example, a user auditor may use reports issued under Section 5970, or the AICPA Statement on Auditing Standards No. 70, *Service Organizations* (SAS 70), and meet the requirements of proposed CAS 402. Therefore, adopting ISAE 3402 for use in Canada is not required in order to perform audits of user entity financial statements in accordance with Canadian Auditing Standards.

IAASB Exposure Draft

The IAASB's Exposure Draft of [proposed ISAE 3402](#) is available on the IAASB website.

Background

Section 5970 provides guidance for auditors who issue audit reports on processing transactions by a service organization for use by user organizations and their auditors. AuG-42 supplements Section 5970 by discussing situations in which a service organization uses a sub-service organization to perform some or all of the processing of a user entity's transactions. Proposed ISAE 3402 covers this same subject matter, but there are some significant differences between proposed ISAE 3402 and the existing requirements and guidance in the CICA Handbook – Assurance. These are listed below.

Key differences between ISAE 3402 and Section 5970

What is significant to a user will depend on the particular circumstances; therefore, readers should perform their own review of the entire proposed standard and other relevant materials to understand how its proposals differ from their current practices, policies or methodologies.

Assertion-based engagement

ISAE 3402 deals only with assertion-based engagements. It requires the service organization management's assertion to be appended to the report on controls at a service organization. This assertion addresses matters including the fair presentation of the description of the service organization's system, the suitable design of controls related to the organization's control objectives and, in the case of a Type B report, the effective operation of such controls. Section 5970 does not have a similar requirement.

Suitable criteria

ISAE 3402 contains requirements on assessing the suitability of the criteria used in preparing and presenting the description of the system, in evaluating whether controls are suitably designed and, in the case of a Type B report, in evaluating whether controls are operating effectively. It sets out the minimum elements of suitable criteria for these engagements. Section 5970 does not explicitly deal with matters related to suitable criteria.

Period of time vs. point in time reporting for the Type B report (Type 2 report under Section 5970)

ISAE 3402 requires the service auditor's work and report to cover, for the entire period under audit, the presentation of description of the system, the suitable design of controls and the effective operation of controls. Under Section 5970, the service auditor's work and report on the presentation of description of the systems and the suitable design of control is "as at" a specified date, rather than covering the entire period under audit.

Self-standing nature of ISAE 3402

ISAE 3402 is a self-standing standard. That is, rather than referring to ISAs dealing with various matters, the ISAE itself provides requirements and application material on those matters in the context of an audit of controls at a service organization. Such matters include:

- assessing the suitability of criteria;
- setting materiality and assessing engagement risk;
- using the internal audit function
- using the work of a service auditor's external expert;
- audit sampling; and
- documentation.

Section 5970, on the other hand, is not self-standing and makes references to various auditing standards.

Nature and extent of information provided on work performed

ISAE 3402 requires that the service auditor make no reference in his or her opinion to the work done by the service organization's internal audit or a service auditor's external expert. However, the service auditor is required to include, in that part of his or her report that describes tests of controls and the results thereof, a description of the work done by the internal audit function or the service auditor's external expert, and the service auditor's procedures with respect to that work.

Section 5970 requires that the service auditor make no reference in his or her report to the work of others, nor attribute the performance of the tests or results of the tests to them.

Responding to this Invitation to Comment

The AASB has issued this Invitation to Comment to obtain stakeholder input on the following:

1. The proposed ISAE 3402

Stakeholders are asked to provide comments on the IAASB's Exposure Draft directly to the IAASB, and provide the AASB with a copy of the response. The AASB will take these comments into account in drafting its own response to the IAASB's Exposure Draft. Respondents are asked not to include comments on matters particular to the Canadian environment in their responses to the IAASB. Such comments should be included only in responses sent to the AASB.

Comments are most helpful if they are related to a specific paragraph or group of paragraphs, and, when expressing disagreement, they clearly explain the problem, and include a suggestion for alternative wording supported by specific reasoning. When a respondent agrees with proposals, it will be helpful for the AASB to be made aware of this view.

Stakeholders should refer to the “Guide for Respondents” contained in the IAASB’s Exposure Draft, and respond to the specific questions asked therein.

2. Matters that the AASB should consider in reviewing ISAE 3402 to determine what changes, if any, are required to the current Section 5970 and AuG-42, including the possibility of replacing them by adopting ISAE 3402.

Comments relating to matters for the AASB to consider would be most helpful if they clearly explain the issues raised and suggest a specific course of action, supported by specific reasoning.

Stakeholders are requested to address these comments to:

Greg Shields, CA

Director, Auditing and Assurance Standards

The Canadian Institute of Chartered Accountants

277 Wellington Street West

Toronto, Ontario M5V 3H2

For ease of handling, we prefer comments to be sent by e-mail (in Word format)

to: ed.assurancestds@cica.ca

TO BE CONSIDERED, COMMENTS MUST BE RECEIVED BY MAY 5, 2008.