



International Federation of Accountants

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Agenda Item 7

Committee: IAASB
Meeting Location: Brussels
Meeting Date: December 8-11, 2008

Service Organizations – ISAE 3402

Objective of Agenda Item

1. To review significant comments received on the exposure draft of proposed ISAE 3402¹ (ED-ISAE 3402).

Task Force Composition

2. The task force comprises:
 - Denise Esdon, chair ISAE 3402² and ISA 402, Deputy Chair IAASB
 - Romek Lubaczewski, PwC, Poland
 - Calum Thomson, Deloitte, UK
 - Karsten tom Dieck, KPMG, Germany
 - Rick Wood, Grant Thornton, Canada

Background

3. The IAASB commenced this project in 2006 concurrently with a project to revise extant ISA 402.³ This proposed ISAE is intended to complement proposed ISA 402 (Revised and Redrafted),⁴ in that reports prepared in accordance with proposed ISAE 3402 will be capable of providing appropriate evidence under proposed ISA 402 (Revised and Redrafted).
4. ED-ISAE 3402 was issued in December 2007, with a response date of May 31, 2008.
5. Forty-seven responses were received, distributed as follows:
 - 21 Professional Accounting Bodies
 - 3 National Auditing Standard Setters

¹ ISAE 3402, “Assurance Reports on Controls at a Third Party Service Organization.”

² George Tucker, Ernst & Young (retired), USA, and former IAASB Technical Advisor, was chair of the Task Force until exposure draft stage.

³ ISA 402, “Audit Considerations Relating to Entities Using Service Organizations.”

⁴ Proposed ISA 402 (Revised and Redrafted), “Audit Considerations Relating to an Entity Using a Third-Party Service Organization.”

- 5 Service Organizations
 - 6 Public Sector Organizations
 - 2 Regulators and Oversight Authorities
 - 7 Audit Firms
 - 3 Individuals and Others
6. A list of all respondents is included in Appendix 1. Respondent’s letters are available at <http://www.ifac.org/Guidance/EXD-Details.php?EDID=0099>.
 7. The Issues Paper included with this agenda item summarizes significant issues raised in responses, and the Task Force’s recommendations thereon.
 8. Generally, respondents expressed support for the ISAE. Many proposed further improvements in addition to providing input on the questions posed in the explanatory memorandum.

SAS 70 Developments

9. Over the past few decades, in the absence of an IAASB pronouncement, SAS 70,⁵ developed by the AICPA’s Auditing Standards Board (ASB), has been accepted in many jurisdictions as the de facto international standard for assurance reports on controls at a third party service organization.
10. In November 2008, the ASB approved a proposed statement on standards for attestation engagements (SSAE), *Reporting on Controls at A Service Organization*, with a February 2009 comment deadline (ED-SSAE).⁶
11. The Explanatory Memorandum to ED-SSAE includes the following text under the heading “Convergence “;

Consistent with the ASB’s strategy to converge its standards with those of the International Auditing and Assurance Standards Board (IAASB), the proposed SSAE has been drafted using the December 2007 exposure draft of International Standard on Assurance Engagements (ISAE) 3402, *Assurance Reports on Controls at a Third Party Service Organization*, as a base. Differences between the proposed SSAE and the ISAE 3402 exposure draft, for which the ASB believes there is no compelling reason, have been eliminated. Any differences in objectives, definitions, or requirements between the proposed SSAE and the ISAE 3402 exposure draft are identified in exhibit E.

The ASB has made various changes to the language in the proposed ISAE, including replacing terms or phrases used in the proposed ISAE with those more commonly used in the United States, and tailoring examples and guidance so that

⁵ Statement of Auditing Standards 70, “Reports on the Processing of Transactions by Service Organizations.”

⁶ ED-SSAE will be available at:

www.aicpa.org/Professional+Resources/Accounting+and+Auditing/Audit+and+Attest+Standards/

they are more appropriate for the U.S. environment. Where the ASB believes that such changes in language have resulted in a substantive difference, these differences have been identified in exhibit E.

12. Exhibit E from ED-SSAE is attached to this memo as Appendix 2.
13. The revision of SAS 70 provides the IAASB with an opportunity to ensure the final versions of ISAE 3402 and SAS 70 are aligned to the maximum extent possible. The Task Force has proposed a joint meeting of the ISAE 3402 and SAS 70 task forces. That joint meeting would need to take place after the end of the SAS 70 exposure period. Should this go ahead as suggested, it might in turn affect the subsequent timing of the ISAE 3402 project. A verbal update on the states of these developments, and their likely implications for the ISA 3402 project, will be given at the December IAASB meeting.

Approach to Discussion

14. Given the uncertainty associated with the timing of responses to ED-SAS 70 and the potential for that to result in editorial changes to ISAE 3402, a revised draft ISAE has not been included in the papers for this Agenda Item. Discussion will instead focus on the significant issues raised by respondents to ED-ISAE 3402 identified in the attached Issues Paper, which includes some proposed drafting changes as appropriate.

Material Presented

Agenda Item 7-A Issues Paper

(Pages 3709 – 3724)

Action Requested

15. The IAASB is asked to provide the task force with feedback and guidance on the issues raised by respondents.

List of Respondents

Professional Accounting Bodies

AICPA	American Institute of Certified Public Accountants
ACCA	Association of Chartered Certified Accountants
AIA	The Association of International Accountants
CSCPA	California Society of Certified Public Accountants
CICA	The Canadian Institute of Chartered Accountants
CIPFA	Chartered Institute of Public Finance and Accountancy
CNCC- CSOEC	Compagnie Nationale des Commissaires aux Comptes & Conseil Supérieur de l'Ordre des Experts-Comptables
DnR	Den norske Revisorforening
FEE	Federation des Experts Comptables Europeens
FICPA	Florida Institute of Certified Public Accountants
FSR	Foreningen af Statsautoriserede Revisorer (Denmark)
HKICPA	Hong Kong Institute of Certified Public Accountants
IdW	Institut der Wirtschaftsprüfer
ICPAS	Institute of Certified Public Accountants of Singapore
ICAEW	The Institute of Chartered Accountants in England and Wales
ICAIre	The Institute of Chartered Accountants in Ireland
ICAP	Institute of Chartered Accountants of Pakistan
JICPA	The Japanese Institute of Certified Public Accountants
NIVRA	Koninklijk Nederlands Instituut van Registeraccountants
KICPA	Korean Institute of Certified Public Accountants
NZICA	New Zealand Institute of Chartered Accountants
SAICA	The South African Institute of Chartered Accountants

Independent National Auditing Standard Setters

AUASB	Auditing and Assurance Standards Board (Australia)
APB	Auditing Practices Board (UK)
IRBA	Independent Regulatory Board for Auditors (South Africa)

Service Organizations

Atos	Atos Origin
IBM	IBM Global Services
HP	Hewlett-Packard
Mn Serv	Mn Services
Robeco	Robeco

Public Sector Organizations

AGA	Association of Government Accountants
ACAG	Australasian Council of Auditors-General
OAGC	Office of the Auditor General of Canada
GAO	General Accounting Office (USA)
NAO	National Audit Office (UK)
PA Sask	Provincial Auditor Saskatchewan

Regulators and Oversight Authorities

Basel	Basel Committee on Banking Supervision
IOSCO	International Organization of Securities Commissions

Audit Firms

BDO	BDO Global Coordination B.V.
DTT	Deloitte Touche Tohmatsu
EYG	Ernst & Young Global
GTI	Grant Thornton International
KPMG	KPMG
PwC	PricewaterhouseCoopers

Individuals and Others

ISACA	Information Security and Control Association
Maresca	Joseph Maresca
VanRanst	Al Van Ranst

Appendix 2

List of Respondents

Substantive Differences Between the Proposed Statement on Standards for Attestation Engagements, *Reporting On Controls at a Service Organization*, and the Exposure Draft of International Standard on Assurance Engagements 3402, *Assurance Reports on Controls at a Third-Party Service Organization*

This analysis was prepared by the AICPA Audit and Attest Standards staff to highlight substantive differences between the proposed Statement on Standards for Attestation Engagements (SSAE), *Reporting on Controls at a Service Organization*, and the December 2007 exposure draft of International Standard on Assurance Engagements (ISAE) 3402, *Assurance Reports on Controls at a Third Party Service Organization*, and to explain the rationale for those differences. This analysis is not authoritative and is prepared for informational purposes only. It has not been acted on or reviewed by the Auditing Standards Board.

Description of Difference	Explanation
<p>1. Intentional acts by service organization personnel.</p> <p>Paragraph 32 of the proposed SSAE requires the auditor, when obtaining an understanding of the service organization’s system, to obtain information for use in identifying risks that the description of the service organization’s system is not fairly presented, or that the control objectives stated in that description were not achieved due to intentional acts by service organization personnel. The ISAE 3402 exposure draft (ED) does not contain this requirement.</p>	<p>Enables the service auditor to give adequate consideration to the risk that incorrect information resulting from intentional acts by service organization personnel may be reported to user entities.</p>
<p>2. Changes in the service organization’s controls.</p> <p>Paragraph 37 of the proposed SSAE, which addresses type 2 reports, requires the service auditor to</p> <ul style="list-style-type: none"> • inquire about changes in the service organization’s controls implemented during the period covered by the service auditor’s report. • describe the changes in his or her report if they are not included in the description of the service organization’s system, and the service auditor believes the changes would be considered significant by user entities and their auditors. • determine from management whether it is possible for the controls to be tested before and after the change, if the superseded controls are relevant to the 	<p>In a type 2 report, the service auditor’s opinion on the fairness of the presentation of the description and the suitability of the design and operating effectiveness of the controls covers a specified period. Information about changes in a service organization’s controls implemented during the period covered by the service auditor’s report could be significant to user entities and their auditors.</p>

Description of Difference	Explanation
<p>achievement of the control objectives stated in the description during the period covered by the service auditor’s report.</p> <ul style="list-style-type: none"> determine the effect on the service auditor’s report, if it is not possible for the service auditor to test the controls before and after the change. <p>These procedures are not required in the ISAE 3402 ED.</p>	
<p>3. Requiring an assertion</p> <p>Paragraph 8c of the proposed SSAE requires the service auditor to obtain a written assertion from management regarding the fairness of the presentation of the description, the suitability of the design of the controls, and, in a type 2 report, the operating effectiveness of the controls.</p> <p>Paragraph 4 of the ISAE 3402 ED states, in part, “This ISAE applies to assertion-based engagements.” This sentence is not worded as a requirement and would, therefore, enable a service auditor to perform the engagement without obtaining an assertion.</p>	<p>Requiring management to provide a written assertion about the subject matter underscores the fact that management of the service organization is responsible for controls at the service organization that affect user entities’ information and communication systems.</p>
<p>4. Sampling and means of selecting items for testing</p> <p>Paragraph 39 of the proposed SSAE states that the service auditor should refer to AU section 350, <i>Audit Sampling</i> (AICPA, <i>Professional Standards</i>, vol. 1) if the service auditor determines that sampling is appropriate in performing tests of the operating effectiveness of controls. The ISAE 3402 ED does not contain this requirement and instead contains requirements and application guidance on this subject in paragraphs 39, A23, and A24.</p>	<p>Audit sampling and methods of selecting items for testing is a relatively complex topic that is more comprehensively and accurately addressed in AU section 350.</p>
<p>5. Third party service organizations</p> <p>The term <i>third party</i> is used in the title of and elsewhere in the ISAE 3402 ED to describe the service organizations that are the subject of the exposure draft. That descriptive is not used in the proposed SSAE.</p>	<p>The term <i>third party</i> denotes a service organization that is external to the entity. Paragraph 2(b) of the ISAE 3402 ED indicates that the ISAE would also be applicable to controls at a shared service center. Use of the descriptive <i>third party</i> unnecessarily narrows the scope of the ISAE and makes it inconsistent with the statement in paragraph 2(b) and the</p>

Description of Difference	Explanation
	intent of the ISAE.
<p>6. Obtaining representations from those charged with governance</p> <p>Paragraph 42 of the proposed SSAE requires the service auditor to ask management to provide written representations; whereas, paragraph 42 of the ISAE 3402 ED requires the service auditor to ask management and those charged with governance to provide written representations.</p>	<p>In practice, a service auditor is rarely engaged by and has very little interaction with those charged with governance. As a rule, a service auditor is engaged by and primarily interacts with management.</p>
<p>7. Obtaining representations from management of the subservice organization</p> <p>If the service organization uses a subservice organization and the description of the service organization’s system is presented using the inclusive method, paragraph 43 of the proposed SSAE requires the service auditor to obtain written representations from management of the subservice organization. The ISAE 3402 ED does not contain this requirement.</p>	<p>When the inclusive method is used to present the description of the service organization’s system, and the subservice organization’s control objectives and related controls are included in the description, that information is on the same footing as the information provided by the service organization about its own control objectives and related controls. Accordingly, the service auditor has the same responsibility for reporting on the subservice organization’s information as he or she does for reporting on the service organization’s information.</p>
<p>8. Other Reasons for Report Modification</p> <p>Paragraph 61 of the proposed SSAE requires the service auditor to modify his or her report if information, regardless of specified control objectives, comes to the service auditor’s attention that causes him or her to conclude that (1) design deficiencies exist that could adversely affect the ability of the service organization to initiate, authorize, record, process, or report financial data to user entities without error and (2) user entities would not generally be expected to have controls in place to mitigate such design deficiencies. The ISAE 3402 ED does not contain this requirement.</p>	<p>Paragraph 61 enables the service auditor to modify his or her report in circumstances other than those contemplated in paragraph 60.</p>