

1-1-2008

Disposition of paragraphs in AU section 324, service organizations, in the proposed statement on auditing standards (SAS), Audit considerations when an entity uses a service organization, and in the proposed statement on standards for attestation engagements (SSAE), reporting on controls at a service organization; Exposure draft (American Institute of Certified Public Accountants), 2008, November 17

American Institute of Certified Public Accountants. Auditing Standards Board

Follow this and additional works at: https://egrove.olemiss.edu/aicpa_sop

 Part of the [Accounting Commons](#), and the [Taxation Commons](#)

Recommended Citation

American Institute of Certified Public Accountants. Auditing Standards Board, "Disposition of paragraphs in AU section 324, service organizations, in the proposed statement on auditing standards (SAS), Audit considerations when an entity uses a service organization, and in the proposed statement on standards for attestation engagements (SSAE), reporting on controls at a service organization; Exposure draft (American Institute of Certified Public Accountants), 2008, November 17" (2008). *Statements of Position*. 687.

https://egrove.olemiss.edu/aicpa_sop/687

Disposition of Paragraphs in AU Section 324, *Service Organizations*, in the Proposed Statement on Auditing Standards (SAS), *Audit Considerations When an Entity Uses a Service Organization*, and in the Proposed Statement on Standards for Attestation Engagements (SSAE), *Reporting on Controls at a Service Organization*

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>Introduction and Applicability</p> <p>.01 This section provides guidance on the factors an independent auditor should consider when auditing the financial statements of an entity that uses a service organization to process certain transactions. This section also provides guidance for independent auditors who issue reports on the processing of transactions by a service organization for use by other auditors.</p>	<p>Par. 1, SAS: This Statement on Auditing Standards (SAS) addresses the user auditor’s responsibilities for obtaining sufficient appropriate audit evidence in an audit of the financial statements of an entity that uses one or more service organizations. Specifically, it expands on how the auditor applies AU section 314, <i>Understanding The Entity and Its Environment and Assessing the Risks of Material Misstatement</i>, and AU section 318, <i>Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained</i> (AICPA, <i>Professional Standards</i>, vol. 1), in identifying and assessing the risks of material misstatement and in designing and performing further audit procedures.</p> <p>Par. 1, SSAE: This Statement on Standards for Attestation Engagements (SSAE) 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 part of the user entities’ information and communication systems relevant to financial reporting. It complements proposed AU section 324, <i>Audit Considerations Relating to an Entity Using a Service Organization</i> (AICPA, <i>Professional Standards</i>, vol. 1), in that reports prepared in accordance with this SSAE may provide appropriate evidence under AU section 324.</p>	<p>Extant AU section 324 establishes requirements and provides guidance to an auditor of an entity that uses a service organization (user auditor) and an auditor performing a service auditor’s engagement (service auditor). In the proposed standards, the subject of service organizations is presented in two separate standards. The proposed SAS addresses user auditors, and the proposed SSAE addresses service auditors.</p>
<p>.02 For purposes of this section, the following definitions apply:</p> <ul style="list-style-type: none"> • User organization—The entity that has engaged a service organization and whose financial statements are being audited. 	<p>Par. 8, SAS: User entity – An entity that uses a service organization and whose financial statements are being audited.</p> <p>Par. 7, SSAE: User entity – An entity that uses a service organization.</p>	<p>The ISAE 3402 and ISA 402 EDs use the term “user entity” rather than “user organization.”</p>
<ul style="list-style-type: none"> • User auditor—The auditor who reports on the financial statements of the user organization 	<p>Par. 8, SAS and Par. 7, SSAE: User auditor – An auditor who audits and reports on the financial statements of a user entity.</p>	<p>Conforms the definition of “user auditor” to the definition in the ISAE 3402 and ISA 402 EDs.</p>

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<ul style="list-style-type: none"> • Service organization—The entity (or segment of an entity) that provides services to a user organization that are part of the user organization's information system 	<p>Par. 8, SAS and Par. 7, SSAE: Service organization – An organization or segment of an organization that provides services to user entities that are part of those user entities' information and communication systems relevant to financial reporting.</p>	<p>"Information and communication systems" is the language used in paragraph 41c of AU section 314.</p>
<ul style="list-style-type: none"> • Service auditor—The auditor who reports on controls of a service organization that may be relevant to a user organization's internal control as it relates to an audit of financial statements 	<p>Par. 8 SAS and Par. 7, SSAE: Service auditor – A practitioner who reports on controls at a service organization.</p>	<p>In the proposed SSAE a practitioner is defined as a service auditor. The term "practitioner," rather than "auditor," generally is used in the SSAEs. Defining a practitioner as a service auditor permits the term "service auditor" to be used thereafter.</p>
<ul style="list-style-type: none"> • Report on controls placed in operation—A service auditor's report on a service organization's description of its controls that may be relevant to a user organization's internal control as it relates to an audit of financial statements, on whether such controls were suitably designed to achieve specified control objectives, and on whether they had been placed in operation as of a specific date 	<p>Par. 8, SAS and Par. 7, SSAE: Report on a description of a service organization's system and the suitability of the design of controls (referred to in this SAS (SSAE) as a <i>type 1 report</i>) – A report that comprises:</p> <p>a. a description of the service organization's system, prepared by management of the service organization.</p> <p>b. a written assertion by the service organization's management about whether, in all material respects, and based on suitable criteria</p> <p>(1) the description of the service organization's system fairly presents the service organization's system that was designed and implemented as of a specified date;</p> <p>(2) the controls related to the control objectives stated in the description were suitably designed as of the specified date.</p> <p>c. a service auditor's report that expresses an opinion on the matters in b1–2.</p>	<p>1. The term "Report on a description of a service organization's system and the suitability of the design of controls," refers to</p> <ul style="list-style-type: none"> • the service auditor's letter expressing an opinion. • the service organization's assertion. • the service organization's description of the service organization's system. <p>2. In AU section 324, the service auditor is reporting on subject matter. The proposed SSAE requires the service auditor to obtain an assertion from management, and the service auditor to report on that assertion.</p>
<ul style="list-style-type: none"> • Report on controls placed in operation and tests of operating effectiveness—A service auditor's report on a service organization's description of its controls that may be relevant to a user organization's internal control as it relates to an audit of financial statements,¹ on whether such controls were suitably designed to achieve specified control objectives, on whether they had 	<p>Par. 8, SAS and par. 7, SSAE: Report on a description of a service organization's system and the suitability of the design and operating effectiveness of controls (referred to in this SAS (SSAE) as a <i>type 2 report</i>). – A report that comprises</p> <p>a. a description of the service organization's system, prepared by management of the service organization;</p>	<p>The term "Report on a description of a service organization's system and the suitability of the design and operating effectiveness of controls," refers to</p> <ul style="list-style-type: none"> • the service auditor's letter expressing an opinion. • the service organization's assertion.

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>been placed in operation as of a specific date, and on whether the controls that were tested were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the related control objectives were achieved during the period specified.</p> <p>FN1 In this section, a service organization's controls that may be relevant to a user organization's internal control as it relates to an audit of financial statements will be referred to as a service organization's <i>controls</i>.</p>	<p><i>b.</i> a written assertion by the service organization's management about whether, in all material respects, and based on suitable criteria</p> <p>(1) the description of the service organization's system fairly presents the service organization's system that was designed and implemented throughout the specified period;</p> <p>(2) the controls related to the control objectives stated in the description of the service organization's system were suitably designed throughout the specified period to achieve those control objectives;</p> <p>(3) the controls related to the control objectives stated in the description of the service organization's system operated effectively throughout the specified period to achieve those control objectives.</p> <p><i>c.</i> A service auditor's report that:</p> <p>(1) expresses an opinion about the matters in b(1)–(3).</p> <p>(2) includes a description of the service auditor's tests of controls and the results thereof.</p>	<ul style="list-style-type: none"> • the service organization's description of the service organization's system. • the service auditor's description of the tests of controls he or she performed and the results of those tests.
<p>.03 The guidance in this section is applicable to the audit of the financial statements of an entity that obtains services from another organization that are part of its information system. A service organization's services are part of an entity's information system if they affect any of the following:</p> <ul style="list-style-type: none"> • The classes of transactions in the entity's operations that are significant to the entity's financial statements • The procedures, both automated and manual, by which the entity's transactions are initiated, authorize, recorded, processed, and reported from their occurrence to their inclusion in the financial statements • The related accounting records, whether electronic or manual, supporting information, and specific accounts in the entity's financial 	<p>Par. 3, SAS: A service organization's services are part of an entity's information and communication systems, including related business processes, relevant to financial reporting if they affect any of the following:</p> <p><i>a.</i> The classes of transactions in the entity's operations that are significant to the entity's financial statements</p> <p><i>b.</i> The procedures within both automated and manual systems by which the entity's transactions are initiated, authorized, recorded, processed, corrected as necessary, and reported in the financial statements</p> <p><i>c.</i> The related accounting records (whether electronic or manual); supporting information; and specific accounts in the entity's financial statements involved in initiating,</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>statements involved in initiating, recording, processing and reporting the entity's transactions</p> <ul style="list-style-type: none"> • How the entity's information system captures other events and conditions that are significant to the financial statements • The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures <p>Service organizations that provide such services include, for example, bank trust departments that invest and service assets for employee benefit plans or for others, mortgage bankers that service mortgages for others, and application service providers that provide packaged software applications and a technology environment that enables customers to process financial and operational transactions. The guidance in this section may also be relevant to situations in which an organization develops, provides, and maintains the software used by client organizations. The provisions of this section are not intended to apply to situations in which the services provided are limited to executing client organization transactions that are specifically authorized by the client, such as the processing of checking account transactions by a bank or the execution of securities transactions by a broker. This section also is not intended to apply to the audit of transactions arising from financial interests in partnerships, corporations, and joint ventures, such as working interests in oil and gas ventures, when proprietary interests are accounted for and reported to interest holders.</p>	<p>authorizing, recording, processing, and reporting the entity's transactions. This includes the correction of incorrect information.</p> <p>d. How the entity's information and communication systems capture events and conditions, other than transactions, that are significant to the financial statements</p> <p>e. The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures</p> <p>Par. A2, SAS: A user entity may use a service organization such as one that processes transactions and maintains the related accountability for the user entity or records transactions and processes related data for the user entity. Service organizations that provide such services include, for example, bank trust departments that invest and service assets for employee benefit plans or for others, mortgage servicers that service mortgages for others, and application service providers that provide packaged software applications and a technology environment that enables customers to process financial and operational transactions. Exhibit A of this SAS contains examples of service organizations.</p> <p>Par A3, SAS. Examples of services provided by service organizations that are relevant to the audit include</p> <ul style="list-style-type: none"> • maintaining the user entity's accounting records. • management of assets. • initiating, recording, or processing transactions for user entities. <p>Par. 5, SAS: This SAS does not apply to services that are limited to processing an entity's transactions that are specifically authorized by the entity, such as the processing of checking account transactions by a bank or the processing of securities transactions by a broker. In these situations the user entity retains responsibility for authorizing the transactions and maintaining the related accountability.</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
	In addition, this SAS does not apply to the audit of transactions arising from proprietary financial interests in other entities such as partnerships, corporations, and joint ventures, when proprietary interests are accounted for and reported to interest holders.	
<p>.04 This section is organized into the following sections:</p> <p>a. The user auditor's consideration of the effect of the service organization on the user organization's internal control and the availability of evidence to:</p> <ul style="list-style-type: none"> • Obtain the necessary understanding of the user organization's internal control to assess the risks of material misstatement. • Assess the risks of material misstatement at the user organization • Perform further audit procedures <p>b. Considerations in using a service auditor's report</p> <p>c. Responsibilities of service auditors</p>		This paragraph is specific to the format and content of extant AU section 324 and is not included in the proposed SAS or SSAE.
The User Auditor's Consideration of the Effect of the Service Organization on the User Organization's Internal Control and the Availability of Audit Evidence		
.05 The user auditor should consider the discussion in paragraphs 6-21 when obtaining an understanding of the entity and its environment, including its internal controls and performing the audit of an entity that uses a service organization to process its transactions.		This paragraph is specific to the format and content of extant AU section 324 and is not included in the proposed SAS or SSAE.
The Effect of Use of a Service Organization on a User Organization's Internal Control		
.06 When a user organization uses a service organization, transactions that affect the user organization's financial statements are subjected to controls that are, at least in part, physically and operationally separate from the user organization. The significance of the controls of the service organization to those of the user organization depends on the nature of the	Par. A4, SAS: A service organization may establish policies and procedures (controls) that affect the user entity's information and communication systems. These controls are at least in part physically and operationally separate from the user entity. The significance of the controls at the service organization to the user entity's internal control depends on the nature of the services provided by the service organization, including the nature and materiality of	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>services provided by the service organization, primarily the nature and materiality of the transactions it processes for the user organization and the degree of interaction between its activities and those of the user organization. To illustrate how the degree of interaction affects user organization controls, when the user organization initiates transactions and the service organization executes and does the accounting processing of those transactions, there is a high degree of interaction between the activities at the user organization and those at the service organization. In these circumstances, it may be practicable for the user organization to implement effective controls for those transactions. However, when the service organization initiates, executes, and does the accounting processing of the user organization's transactions, there is a lower degree of interaction and it may not be practicable for the user organization to implement effective controls for those transactions.</p>	<p>the transactions it processes for the user entity. In certain situations, the transactions processed and the accounts affected by the service organization may not appear to be material to the user entity's financial statements, but the nature of the transactions processed may be significant and the user auditor may determine that an understanding of those controls is necessary in the circumstances.</p> <p>Par A5, SAS: The significance of the controls at the service organization to the user entity's internal control also depends on the degree of interaction between the service organization's activities and those of the user entity. The degree of interaction refers to the extent to which a user entity is able to and elects to implement effective controls over the processing performed by the service organization. For example, a high degree of interaction exists between the activities of the user entity and those at the service organization when the user entity authorizes transactions and the service organization processes and accounts for those transactions. In these circumstances, it may be practicable for the user entity to implement effective controls over those transactions. On the other hand, when the service organization initiates, processes, and accounts for the user entity's transactions, there is a lower degree of interaction between the two organizations. In these circumstances, the user entity may be unable to, or may elect not to, implement effective controls over these transactions.</p>	
<p>Planning the Audit</p> <p>.07.AU section 314, <i>Understanding the Entity and its Environment and Assessing the Risks of Material Misstatement</i>, states that an auditor should obtain an understanding of each of the five components of the entity's internal control sufficient to assess the risks of material misstatement and to design the nature, timing, and extent of further audit procedures. This understanding may encompass controls placed in operation by the entity and by service</p>	<p>Par. 1, SAS: This Statement on Auditing Standards (SAS) addresses the user auditor's responsibilities for obtaining sufficient appropriate audit evidence in an audit of the financial statements of an entity that uses one or more service organizations. <u>Specifically, it expands on how the auditor applies AU section 314, <i>Understanding The Entity and Its Environment and Assessing the Risks of Material Misstatement</i>, and AU section 318, <i>Performing Audit Procedures in Response to Assessed Risks and Evaluating the Audit Evidence Obtained</i> (AICPA, <i>Professional Standards</i>, vol.1), in identifying and assessing the risks of</u></p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>organizations whose services are part of the entity's information system. The auditor should use such knowledge to:</p> <ul style="list-style-type: none"> • Identify types of potential misstatements. • Consider factors that affect the risks of material misstatement. • Design tests of controls, when applicable. Paragraphs 23-27 of AU section 318 discuss factors the auditor considers in determining whether to perform tests of controls • Design substantive tests. 	<p>material misstatement and in designing and performing further audit procedures.</p> <p>Par.10, SAS: When obtaining an understanding of internal control relevant to the audit in accordance with paragraphs .40 and .47 of AU section 314, <u>the user auditor should evaluate the design and implementation of relevant controls at the user entity that relate to the services performed by the service organization</u>, including those controls that are applied to the transactions processed by the service organization, and relevant monitoring controls. (Ref: par. A10–A12),</p>	
<p>.09 Information about the nature of the services provided by a service organization that are part of the user organization's information system and the service organization's controls over those services may be available from a wide variety of sources, such as user manuals, system overviews, technical manuals, the contract between the user organization and the service organization, and reports by service auditors, internal auditors, or regulatory authorities on the service organization's controls. If the services and the service organization's controls over those services are highly standardized, information obtained through the user auditor's prior experience with the service organization may be helpful in assessing the risks of material misstatement.</p>	<p>Par. A13, SAS: Information about the nature of the services provided by a service organization may be available from a wide variety of sources, such as:</p> <ul style="list-style-type: none"> • user manuals; • system overviews; • technical manuals; • the contract between the user entity and the service organization; • reports by the service organization's internal auditors or by regulatory authorities on controls at the service organization; and • reports by the service auditor. 	
<p>.10 After considering the available information, the user auditor may conclude that he or she has the means to obtain a sufficient understanding of internal control to assess the risks of material misstatement. If the user auditor concludes that information is not available to obtain a sufficient understanding to assess the risks of material misstatement, he or she may consider contacting the service organization, through the user organization, to obtain specific information or</p>	<p>Par.11, SAS: The user auditor should determine whether he or she has obtained a sufficient understanding of the user entity's internal control relevant to the audit to provide a basis for the identification and assessment of risks of material misstatement. If the user auditor is unable to obtain that understanding from information about the service organization available at the user entity, the user auditor should obtain audit evidence from one or more of the following procedures: (Ref: par. A13–A17)</p>	<p>The requirement to qualify or disclaim an opinion when the user auditor is unable to obtain sufficient evidence to achieve his or her audit objectives is not stated in the proposed SSAE. However that requirement is included within paragraphs .66–.77 of AT section 101 and would be applicable to the proposed SSAE.</p>

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>request that a service auditor be engaged to perform procedures that will supply the necessary information, or the user auditor may visit the service organization and perform such procedures. If the user auditor is unable to obtain sufficient audit evidence to achieve his or her audit objectives, the user auditor should qualify his or her opinion or disclaim an opinion on the financial statements because of a scope limitation</p>	<p>a. Obtaining a type 1 or type 2 report b. Contacting the service organization through the user entity to obtain specific information c. Requesting that a service auditor be engaged to perform procedures that will provide the necessary information d. Visiting the service organization and performing such procedures</p> <p>Par. A27, SAS: If the user auditor believes that the service auditor's report may not provide sufficient audit evidence, for example, if a service auditor's report does not contain a description of the service auditor's tests of controls and results thereof, the user auditor may supplement his or her understanding of the service auditor's procedures and conclusions by contacting the service organization through the user entity to discuss the scope and results of the service auditor's work. Also, if the user auditor believes it is necessary, the user auditor may contact the service organization through the user entity to request that the service auditor perform procedures at the service organization, or the user auditor may perform such procedures.</p>	
<p>Assessing Control Risk at the User Organization</p>		
<p>.11 The user auditor uses his or her understanding of the internal control to assess control risk for the assertions embodied in the account balances and classes of transactions, including those that are affected by the activities of the service organization. In doing so, the user auditor may identify certain user organization controls that, if effective, would permit the user auditor to assess control risk as low or moderate for particular assertions. Such controls may be applied at either the user organization or the service organization. The user auditor may conclude that it would be efficient to obtain audit evidence about the operating effectiveness of</p>	<p>Par. A10, SAS: The user entity may establish controls over the service organization's services that may be tested by the user auditor and that may enable the user auditor to conclude that the user entity's controls are operating effectively for some or all of the related assertions. If a user entity, for example, uses a service organization to process its payroll transactions, the user entity may establish controls over the submission and receipt of payroll information that could prevent or detect and correct material misstatements. In this situation, the user auditor may perform tests of the user entity's controls over payroll processing that would provide a basis for the user auditor to conclude that the user entity's controls are operating effectively for the assertions related to payroll transactions.</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization and Proposed SAS, Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
controls to provide a basis for assessing control risk as low or moderate. .		
<p>.12 A service auditor's report on controls placed in operation at the service organization should be helpful in providing a sufficient understanding to assess the risks of material misstatement of the user organization. Such a report, however, is not intended to provide any evidence of the operating effectiveness of the relevant controls that would allow the user auditor to reduce the assessed level of control risk as low or moderate. Such audit evidence should be derived from one or more of the following:</p> <p>a. Tests of the user organization's controls over the activities of the service organization (for example, the user auditor may test the user organization's independent reperformance of selected items processed by a service organization or test the user organization's reconciliation of output reports with source documents)</p> <p>b. A service auditor's report on controls placed in operation and tests of operating effectiveness, or a report on the application of agreed-upon procedures that describes relevant tests of controls</p> <p>c. Appropriate tests of controls performed by the user auditor at the service organization</p>	<p>Par. A29, SSAE: Obtaining an understanding of controls sufficient to opine on the suitability of their design is not sufficient evidence regarding their operating effectiveness, unless there is some automation that provides for the consistent operation of the controls as they were designed and implemented. For example, obtaining information about the implementation of a manual control at a point in time does not provide evidence about operation of the control at other times. However, because of the inherent consistency of IT processing, performing procedures to determine the design of an automated control and whether it has been implemented may serve as evidence of that control's operating effectiveness, depending on the service auditor's assessment and testing of controls such as those over program changes</p> <p>Par.12, SAS: When the user auditor's risk assessment includes an expectation that controls at the service organization are operating effectively for certain assertions for which controls are applied only at the service organization, the user auditor should obtain audit evidence about the operating effectiveness of those controls from one or more of the following procedures: (Ref: par. A18)</p> <p>d. Performing tests of the user entity's controls over the activities of the service organization</p> <p>a. Obtaining a type 2 report</p> <p>c. Performing appropriate tests of controls at the service organization</p> <p>b. Requesting through the user entity that the service auditor perform tests of controls at the service organization on behalf of the user auditor</p>	<p>.</p>

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
	<p>Par A18, SAS: If a type 2 report is not available, a user auditor may contact the service organization through the user entity to request that a service auditor be engaged to perform a type 2 engagement that includes tests of the operating effectiveness of the relevant controls or to perform agreed-upon procedures that test the operating effectiveness of those controls; for example, procedures a user auditor may perform to test a user entity's controls over the activities of the service organization include independent reperformance of selected items processed by the service organization and tests of the user organization's reconciliation of output reports with source documents. A user auditor may also visit the service organization and perform tests of relevant controls if the service organization agrees to it. In all cases, the user auditor's risk assessments are based on the combined evidence provided by the service auditor's report and the user auditor's own procedures.</p>	
<p>.13 The user organization may establish effective controls over the service organization's activities that may be tested and that may enable the user auditor to reduce the assessed level of control risk as low or moderate for some or all of the relevant assertions. If a user organization, for example, uses a service organization to process its payroll transactions, the user organization may establish controls over the submission and receipt of payroll information that could prevent or detect material misstatements. The user organization might reperform the service organization's payroll calculations on a test basis. In this situation, the user auditor should obtain a sufficient understanding of the user organization's controls over payroll processing to (1) evaluate the design of such controls and (2) determine whether they have been implemented. The understanding of the user organization's controls over payroll processing would provide a basis for assessing control risk for the assertions</p>	<p>Par. A10, SAS: The user entity may establish controls over the service organization's services that may be tested by the user auditor and that may enable the user auditor to conclude that the user entity's controls are operating effectively for some or all of the related assertions. If a user entity, for example, uses a service organization to process its payroll transactions, the user entity may establish controls over the submission and receipt of payroll information that could prevent or detect and correct material misstatements. In this situation, the user auditor may perform tests of the user entity's controls over payroll processing that would provide a basis for the user auditor to conclude that the user entity's controls are operating effectively for the assertions related to payroll transactions.</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>related to payroll transactions.</p> <p>.14 The user auditor may find that controls relevant to assessing control risk as low or moderate for particular assertions are applied only at the service organization. If the user auditor plans to assess control risk as low or moderate for those assertions, he or she should evaluate the operating effectiveness of those controls by obtaining a service auditor's report that describes the results of the service auditor's tests of those controls (that is, a report on controls placed in operation and tests of operating effectiveness, or an agreed-upon procedures report) ² or by performing tests of controls at the service organization. If the user auditor decides to use a service auditor's report, the user auditor should consider the extent of the evidence provided by the report about the effectiveness of controls intended to prevent or detect material misstatements in the particular assertions. The user auditor remains responsible for evaluating the evidence presented by the service auditor and for determining its effect on the assessment of control risk at the user organization.</p> <p>FN2 See AT section 201, <i>Agreed-Upon Procedures Engagements</i>, for guidance on performing and reporting on agreed-upon procedures engagements</p>	<p>Par.12, SAS: When the user auditor's risk assessment includes an expectation that controls at the service organization are operating effectively for certain assertions for which controls are applied only at the service organization, the user auditor should obtain audit evidence about the operating effectiveness of those controls from one or more of the following procedures: (Ref: par. A18)</p> <ul style="list-style-type: none"> a. Obtaining a type 2 report b. c. Performing appropriate tests of controls at the service organization d. <p>Par. 13, SSAE: If the user auditor plans to use a type 1 or type 2 report as audit evidence about the design and implementation of controls at the service organization, the user auditor should (Ref: par. A19–A29)</p> <ul style="list-style-type: none"> a. b. evaluate the sufficiency and appropriateness of the evidence provided for the understanding of internal control relevant to the audit. c. <p>Par. 14, SAS. A type 2 report may be intended to satisfy the needs of several different user auditors; therefore, specific tests of controls and results thereof in the service auditor's description of tests of controls may not be relevant to assertions that are significant to a particular user entity's financial statements. If the user auditor plans to use information in a type 2 report as audit evidence that the controls at the service organization are operating effectively, the user auditor should perform the procedure in paragraph 13b and the following procedures to determine whether the service auditor's report provides sufficient appropriate audit evidence about the effectiveness of the controls to support the user auditor's risk assessment: (Ref: par. A21–A28)</p> <ul style="list-style-type: none"> a. Evaluate whether (1) the description of the service organization's system, and (2) the service auditor's description of tests of controls and results thereof are for a period that is appropriate for the user auditor's purposes. 	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization and Proposed SAS, Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
	<p>b. Determine whether complementary user entity controls identified by the service organization are relevant to the user entity and, if so, obtain an understanding of whether the user entity has designed and implemented such controls. If so, test their operating effectiveness.</p> <p>c. Evaluate the adequacy of the period covered by the tests of controls and the time elapsed since the performance of the tests of controls.</p> <p>d. Evaluate whether the specific tests of controls performed by the service auditor and the results thereof as described in the type 2 report are relevant to assertions in the user entity's financial statements.</p> <p>Par. A8, SAS: <u>A user auditor, for example, may request, through the user entity, that a service auditor perform procedures on behalf of the user auditor, in addition to reporting on controls. For example, a service auditor may be engaged to perform an agreed-upon procedures engagement related to controls at a service organization or a user entity's transactions or balances maintained by the service organization. AT section 201, <i>Agreed-Upon Procedures</i>, (AICPA, <i>Professional Standards</i>, vol.1) establishes standards and provides guidance for agreed-upon procedures engagements.</u></p>	
<p>.15 The user auditor's assessments of control risk regarding assertions about account balances or classes of transactions are based on the combined evidence provided by the service auditor's report and the user auditor's own procedures. In making these assessments, the user auditor should consider the nature, source, and interrelationships among the evidence, as well as the period covered by the tests of controls. The user auditor uses the assessed levels of control risk, as well as his or her understanding of internal control, in determining the nature, timing, and extent of substantive tests for particular assertions.</p>	<p>.</p>	<p>This concept is not articulated in the proposed SSAE.</p>
<p>.16 The guidance in section 326.06, regarding the auditor's consideration of the sufficiency of audit evidence to support a specific assessed</p>	<p>Par. 13, SAS: If the user auditor plans to use a type 1 or type 2 report as audit evidence about the design and implementation of controls at the service organization, the</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>level of control risk is applicable to user auditors considering audit evidence provided by a service auditor's report on controls placed in operation and tests of operating effectiveness. Because the report may be intended to satisfy the needs of several different user auditors, a user auditor should determine whether the specific tests of controls and results in the service auditor's report are relevant to assertions that are significant in the user organization's financial statements. For those tests of controls and results that are relevant, a user auditor should consider whether the nature, timing, and extent of such tests of controls and results provide appropriate evidence about the effectiveness of the controls to support the user auditor's assessed level of control risk. In evaluating these factors, user auditors should also keep in mind that, for certain assertions, the shorter the period covered by a specific test and the longer the time elapsed since the performance of the test, the less support for control risk reduction the test may provide.</p>	<p>user auditor should (Ref: par. A19–A29)</p> <p>a. evaluate whether the description of the service organization's system is as of a date or for a period that is appropriate for the user auditor's purposes.</p> <p>b. evaluate the sufficiency and appropriateness of the evidence provided for the understanding of internal control relevant to the audit.</p> <p>c. determine whether complementary user entity controls identified by the service organization are relevant to the user entity and, if so, obtain an understanding of whether the user entity has designed and implemented such controls.</p> <p>Par. 14, SAS: A type 2 report may be intended to satisfy the needs of several different user auditors; therefore, specific tests of controls and results thereof in the service auditor's description of tests of controls may not be relevant to assertions that are significant to a particular user entity's financial statements. If the user auditor plans to use information in a type 2 report as audit evidence that the controls at the service organization are operating effectively, the user auditor should perform the procedure in paragraph 13<i>b</i> and the following procedures to determine whether the service auditor's report provides sufficient appropriate audit evidence about the effectiveness of the controls to support the user auditor's risk assessment: (Ref: par. A21–A28)</p> <p>a. Evaluate whether (1) the description of the service organization's system, and (2) the service auditor's description of tests of controls and results thereof are for a period that is appropriate for the user auditor's purposes.</p> <p>b. Determine whether complementary user entity controls identified by the service organization are relevant to the user entity and, if so, obtain an understanding of whether the user entity has designed and implemented such controls. If so, test their operating effectiveness.</p> <p>c. Evaluate the adequacy of the period covered by the tests of controls and the time elapsed since the performance of the tests of controls.</p> <p>d. Evaluate whether the specific tests of controls performed by the service auditor and the results thereof as described in the type 2 report are relevant to assertions in</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
	<p>the user entity's financial statements.</p> <p>Par. A22, SAS: For certain assertions, the shorter the period covered by a specific test and the longer the time elapsed since the performance of the test, the less audit evidence the test may provide. In comparing the period covered by the type 2 report to the user entity's financial reporting period, the auditor may conclude that the type 2 report offers less audit evidence if there is little overlap between the period covered by the type 2 report and the period covered by the user entity's financial statements. When this is the case, an additional type 2 report covering a preceding or subsequent period may provide additional audit evidence.</p>	
<p>Audit Evidence From Substantive Audit Procedures Performed by Service Auditors</p>		
<p>.17 Service auditors may be engaged to perform procedures that are substantive in nature for the benefit of user auditors. Such engagements may involve the performance, by the service auditor, of procedures agreed upon by the user organization and its auditor and by the service organization and its auditor. In addition, there may be requirements imposed by governmental authorities or through contractual arrangements whereby service auditors perform designated procedures that are substantive in nature. The results of the application of the required procedures to balances and transactions processed by the service organization may be used by user auditors as part of the evidence necessary to support their opinions.</p>	<p>Par. A35, SAS: As noted in paragraph A8, a service auditor may perform procedures under AT section 201 that are substantive in nature for the benefit of user auditors. Such an engagement may involve the performance by the service auditor of procedures agreed upon by the user entity and its user auditor and by the service organization and its service auditor. The findings resulting from the procedures performed by the service auditor are reviewed by the user auditor to determine whether they constitute sufficient appropriate audit evidence. In addition, there may be requirements imposed by governmental authorities or through contractual arrangements whereby a service auditor performs designated procedures that are substantive in nature. The results of the application of the required procedures to balances and transactions processed by the service organization may be used by the user auditor as part of the evidence necessary to support his or her audit opinions. In these circumstances, it may be useful for the user auditor and the service auditor to establish an understanding prior to the performance of the procedures regarding the audit documentation or means of access to the audit documentation that will be provided to the user auditor.</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
Considerations in Using a Service Auditor's Report		
<p>.18 In considering whether the service auditor's report is satisfactory for his or her purposes, the user auditor should make inquiries concerning the service auditor's professional reputation. Appropriate sources of information concerning the professional reputation of the service auditor are discussed in section 543, <i>Part of Audit Performed by Other Independent Auditors</i>, paragraph .10a.</p>	<p>Par.15, SAS: In determining the sufficiency and appropriateness of the audit evidence provided by a type 1 or type 2 report in support of the user auditor's opinion, the user auditor should be satisfied concerning the service auditor's professional reputation, competence, and independence. (Ref: par. A30 – A31)</p> <p>Par. A30, SAS: The user auditor may inquire about the professional reputation and standing of the service auditor from the auditor's professional organization or other practitioners and inquire whether the service auditor is subject to regulatory oversight. The service auditor may be practicing in a jurisdiction where different standards are followed with respect to reports on controls at a service organization. In such a situation, the user auditor may inquire about the adequacy of those standards.</p>	
<p>.19 In considering whether the service auditor's report is sufficient to meet his or her objectives, the user auditor should give consideration to the guidance in section 543.12. If the user auditor believes that the service auditor's report may not be sufficient to meet his or her objectives, the user auditor may supplement his or her understanding of the service auditor's procedures and conclusions by discussing with the service auditor the scope and results of the service auditor's work. Also, if the user auditor believes it is necessary, he or she may contact the service organization, through the user organization, to request that the service auditor perform agreed-upon procedures at the service organization, or the user auditor may perform such procedures.</p>	<p>Par. 11, SAS: The user auditor should determine whether he or she has obtained a sufficient understanding of the user entity's internal control relevant to the audit to provide a basis for the identification and assessment of risks of material misstatement. If the user auditor is unable to obtain that understanding from information about the service organization available at the user entity, the user auditor should obtain audit evidence from one or more of the following procedures: (Ref: par. A13–A17)</p> <ul style="list-style-type: none"> a. b. Contacting the service organization, through the user entity, to obtain specific information c. d. <p>Par. A8, SAS: A user auditor, for example, may request, through the user entity, that a service auditor perform procedures on behalf of the user auditor in addition to reporting on controls. For example, a service auditor may be engaged to perform an agreed-upon procedures engagement related to controls at a service organization or a user entity's transactions or balances maintained by the service organization. AT section 201, <i>Agreed-Upon</i></p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
	<p><i>Procedures</i> (AICPA, <i>Professional Standards</i>, vol. 1), establishes standards and provides guidance for agreed-upon procedures engagements.</p>	
<p>.20 When assessing a service organization's controls and how they interact with a user organization's controls, the user auditor may become aware of the existence of significant deficiencies or material weaknesses in internal control. In such circumstances, the user auditor should consider the guidance provided in AU section 325, <i>Communicating Internal Control Related Matters Identified in an Audit</i>.</p>	<p>Par. A29, SAS: When assessing a service organization's controls and how they interact with a user entity's internal control relevant to the audit, the user auditor may identify user entity control deficiencies related to the use of a service organization, for example:</p> <ul style="list-style-type: none"> • Any needed monitoring controls that have not been implemented by the user entity, including those identified as a result of obtaining a type 1 or type 2 report • Instances where complementary user entity controls identified in the type 1 or type 2 report are not implemented at the user entity • Controls that may be needed at the service organization that do not appear to have been implemented or that were implemented, but are not operating effectively <p>If a deficiency in internal control is deemed a significant deficiency or material weakness, the user auditor is required to communicate these deficiencies in writing on a timely basis to management and those charged with governance <u>in accordance with AU section 325, <i>Communicating Internal Control Related Matters Identified in an Audit</i></u> (AICPA, <i>Professional Standards</i>, vol. 1).</p>	
<p>.21 The user auditor should not make reference to the report of the service auditor as a basis, in part, for his or her own opinion on the user organization's financial statements. The service auditor's report is used in the audit, but the service auditor is not responsible for examining any portion of the financial statements as of any specific date or for any specified period. Thus, there cannot be a division of responsibility for the audit of the financial statements.</p>	<p>Par. 16, SAS: The user auditor should not refer to the work of a service auditor in the user auditor's report containing an unmodified opinion.</p> <p>Par. 17, SAS: If reference to the work of a service auditor is relevant to an understanding of a modification of the user auditor's opinion, the user auditor report should indicate that that such reference does not diminish the user auditor's responsibility for that opinion.</p> <p>Par. A32, SAS: The fact that a user entity uses a service organization does not alter the user auditor's responsibility</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
	to obtain sufficient appropriate audit evidence to afford a reasonable basis to support the user auditor’s opinion. Therefore, the user auditor does not make reference to the service auditor’s examination report as a basis, in part, for the user auditor’s opinion on the user entity’s financial statements. However, when the user auditor expresses a modified opinion because of a modified opinion in a service auditor’s examination report, the user auditor is not precluded from referring to the service auditor’s examination report if such reference assists in explaining the reason for the user auditor’s modified opinion. In such circumstances, the user auditor may need the consent of the service auditor before making such a reference and need not identify the service auditor by name.	
Responsibilities of Service Auditors		
.22 The service auditor is responsible for the representations in his or her report and for exercising due care in the application of procedures that support those representations. Although a service auditor’s engagement differs from an audit of financial statements conducted in accordance with generally accepted auditing standards, it should be performed in accordance with the general standards and with the relevant fieldwork and reporting standards. Although the service auditor should be independent from the service organization, it is not necessary for the service auditor to be independent from each user organization.	Par. A31, SAS: A service auditor need not be independent of each user entity. Par. A6, SSAE: In performing a service auditor’s engagement, the service auditor need not be independent of each user entity	The relevant general, fieldwork, and reporting standards in AT section 101 are applicable to this engagement.
.23 As a result of procedures performed at the service organization, the service auditor may become aware of illegal acts, fraud, or uncorrected errors attributable to the service organization’s management or employees that may affect one or more user organizations. The terms errors, fraud, and illegal acts are discussed in section 312, <i>Audit Risk and Materiality in Conducting an Audit</i> , and section 317, <i>Illegal</i>	Par. 62, SSAE: A service auditor may become aware of incidents of noncompliance with laws and regulations, fraud, or uncorrected errors attributable to the service organization that are not clearly trivial and that may affect one or more user entities. In those circumstances, the service auditor should determine the effect of such incidents on the description of the service organization’s system, the achievement of the control objectives, and the service auditor’s report. Additionally, the service auditor should	but is not included in extant AU 324. • Communicating with third parties for example, a regulator, when required to do so. AU section 324 requires communication with those charged with governance of the service organization in these circumstances. In the proposed SSAE, this is an action that the service auditor may take.

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p><i>Acts by Clients</i>; the discussions therein are relevant to this section. When the service auditor becomes aware of such matters, he or she should determine from the appropriate level of management of the service organization whether this information has been communicated appropriately to affected user organizations, unless those matters are clearly inconsequential. If the management of the service organization has not communicated the information to affected user organizations and is unwilling to do so, the service auditor should inform those charged with governance of the service organization. If those charged with governance do not respond appropriately to the service auditor's communication, the service auditor should consider whether to resign from the engagement. The service auditor may wish to consult with his or her attorney in making this decision</p>	<p>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, which could, depending on the significance of the matter, include withdrawing from the engagement and communicating the reasons for withdrawal to those charged with governance (Ref: par. A42).</p> <p>Par. A42, SSAE: The following are 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, giving additional consideration to instances in which the service organization has not appropriately communicated this information to affected user entities, and management of the service organization is unwilling to do so:</p> <ul style="list-style-type: none"> • Obtaining legal advice about the consequences of different courses of action • Communicating with those charged with governance of the service organization • Modifying the service auditor's opinion or adding an emphasis of a matter paragraph 	
<p>24. The type of engagement to be performed and the related report to be prepared should be established by the service organization. However, when circumstances permit, discussions between the service organization and the user organizations are advisable to determine the type of report that will be most suitable for the user organizations' needs. This section provides guidance on the two types of reports that may be issued:</p>		<p>Not included in the proposed SSAE.</p>
<p>a. Reports on controls placed in operation—A service auditor's report on a service organization's description of the controls that may be relevant to a user organization's internal control as it relates to an audit of financial statements, on whether such controls were suitably designed to achieve specified control</p>	<p>Par. 8, SAS and par. 7, SSAE: Report on a description of a service organization's system and the suitability of the design of controls (referred to in this SSAE as a <i>type 1 report</i>). (Ref: par. A3). A report that comprises</p> <p>a. a description of the service organization's system</p>	<p>In the proposed SSAE, the service auditor reports on management's assertion. AU section 324 does not require the service auditor to obtain an assertion from management or the service auditor to report on that assertion.</p>

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>objectives, and on whether they had been placed in operation as of a specific date. Such reports may be useful in providing a user auditor with an understanding of the controls necessary to assess the risks of material misstatement and to design effective tests of controls and substantive tests at the user organization, but they are not intended to provide the user auditor with a basis for reducing his or her assessments of control risk as low or moderate.</p> <p>b. Reports on controls placed in operation and tests of operating effectiveness—A service auditor's report on a service organization's description of the controls that may be relevant to a user organization's internal control as it relates to an audit of financial statements, on whether such controls were suitably designed to achieve specified control objectives, on whether they had been placed in operation as of a specific date, and on whether the controls that were tested were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the related control objectives were achieved during the period specified. Such reports may be useful in providing the user auditor with an understanding of the controls necessary to plan the audit and may also provide the user auditor with a basis for reducing his or her assessments of control risk as low or moderate.</p>	<p>prepared by management of the service organization.</p> <p>b. a written assertion by the service organization's management about whether, in all material respects, and based on suitable criteria</p> <p>(1) the description of the service organization's system fairly presents the service organization's system that was designed and implemented as of a specified date.</p> <p>(2) the controls related to the control objectives stated in the description were suitably designed to achieve those control objectives as of the specified date.</p> <p>c. a service auditor's report that expresses an opinion on the matters in <i>b1–2</i>.</p> <p>Par. 8, SAS and par. 7, SSAE: Report on a description of a service organization's system and the suitability of the design and operating effectiveness of controls (referred to in this SSAE as a <i>type 2 report</i>) (Ref: par. A3). A report that comprises</p> <p>a. a description of the service organization's system prepared by management of the service organization.</p> <p>b. a written assertion by the service organization's management, about whether in all material respects, and based on suitable criteria</p> <p>(1) the description of the service organization's system fairly presents the service organization's system that was designed and implemented throughout the specified period.</p> <p>(2) the controls related to the control objectives stated in the description of the service organization's system were suitably designed throughout the specified period to achieve those control objectives.</p> <p>(3) the controls related to the control objectives stated in the description of the service organization's system operated effectively throughout the specified period to achieve those control objectives.</p> <p>c. a service auditor's report that</p> <p>(1) expresses an opinion on the matters in <i>b1–3</i>.</p> <p>(2) includes a description of the service auditor's tests of controls and the results thereof.</p>	
Reports on Controls Placed in Operation		

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>.25 The information necessary for a report on controls placed in operation ordinarily is obtained through discussions with appropriate service organization personnel and through reference to various forms of documentation, such as system flowcharts and narratives.</p>	<p>Par. A14, SSAE: Procedures to obtain this understanding may include the following:</p> <ul style="list-style-type: none"> • 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 • • <p>Par. A21, SSAE: The service auditor’s procedures to evaluate the fair presentation of the description may include the following:</p> <ul style="list-style-type: none"> • • Reviewing the service organization’s policy and procedure manuals and other documentation of the system, for example, flowcharts and narratives. • 	
<p>.26 After obtaining a description of the relevant controls, the service auditor should determine whether the description provides sufficient information for user auditors to obtain an understanding of those aspects of the service organization’s controls that may be relevant to a user organization’s internal control. The description should contain a discussion of the features of the service organization’s controls that would have an effect on a user organization’s internal control. Such features are relevant when they directly affect the service provided to the user organization. They may include controls within the control environment, risk assessment, control activities, information and communication, and monitoring components of internal control. The control environment may include hiring practices and key areas of authority and responsibility. Risk assessment may include the identification of risks associated with processing specific transactions. Control activities may include policies and procedures over the modification of computer programs and</p>	<p>Par. 15, SSAE: Suitable criteria for evaluating whether the description of the service organization’s system is fairly presented should include, at a minimum, whether the description</p> <p>a. presents how the service organization’s system made available to user entities was designed and implemented to process relevant transactions, including the following information about the service organization’s system:</p> <ol style="list-style-type: none"> (1) The classes of transactions processed (2) The procedures, within both automated and manual systems, by which transactions are initiated, authorized, recorded, processed, corrected as necessary, and reported to user entities (3) 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 presented to user entities (4) How the service organization’s system captures significant events and conditions, other than transactions 	<p>AU section 324 addresses whether the description provides sufficient information. The proposed SSAE addresses whether the description is fairly presented.</p>

Extant AU Section 324, Service Organizations (AICPA, Professional Standards, vol. 1)	Proposed SSAE, Reporting on Controls at a Service Organization and Proposed SAS, Audit Considerations When an Entity Uses a Service Organization	Comments and Explanations
<p>are ordinarily designed to meet specific control objectives. The specific control objectives of the service organization should be set forth in the service organization's description of controls. Information and communication may include ways in which user transactions are initiated and processed. Monitoring may include the involvement of internal auditors.</p>	<p>(5) The process used to prepare reports provided to user entities (6) The specified control objectives and controls designed to achieve those objectives (7) 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 achieving the control objectives stated in the description of the service organization's system. <i>b.</i> does not omit or distort information relevant to the scope of the service organization's system, while acknowledging that the description of the service organization's system is presented to meet the common needs of a broad range of user entities and their auditors, and may not, therefore, include every aspect of the service organization's system that each individual user entity and its auditor may consider important in its own particular environment.</p>	
<p>.27 Evidence of whether controls have been placed in operation is ordinarily obtained through previous experience with the service organization and through procedures such as inquiry of appropriate management, supervisory, and staff personnel; inspection of service organization documents and records; and observation of service organization activities and operations. For the type of report described in paragraph .24a, these procedures need not be supplemented by tests of the operating effectiveness of the service organization's controls.</p>	<p>Par. 34, SSAE: The service auditor should determine through inquiries of management and other service organization personnel in combination with other procedures, whether the service organization's system described in management's has been implemented.</p> <p>Par. A23, SSAE: Other procedures that the service auditor may use in combination with inquiry of management and other service organization personnel to determine whether the system described by the service organization has been implemented 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.</p>	
<p>.28 Although a service auditor's report on controls placed in operation is as of a specified date, the service auditor should inquire about changes in the service organization's controls that may have occurred before the beginning of fieldwork. If the service auditor believes that the</p>	<p>Par. 37, SSAE: 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, those changes should be included in the</p>	<p>The proposed SSAE does not state the following:</p> <p>Changes that occurred more than 12 months before the date being reported on normally would not be considered significant because</p>

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization and Proposed SAS, Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>changes would be considered significant by user organizations and their auditors, those changes should be included in the description of the service organization's controls. If the service auditor concludes that the changes would be considered significant by user organization's and their auditors and the changes are not included in the description of the service organization's controls, the service auditor should describe the changes in his or her report. Such changes might include—</p> <ul style="list-style-type: none"> • Procedural changes made to accommodate provisions of a new FASB Statement of Financial Accounting Standards. • Major changes in an application to permit on-line processing. • Procedural changes to eliminate previously identified deficiencies. <p>Changes that occurred more than twelve months before the date being reported on normally would not be considered significant, because they generally would not affect user auditors' considerations.</p>	<p>description of the service organization's system. If such changes are not included in the description, the service auditor should describe the changes in his or her report. If the superseded controls are relevant to the achievement of the control objectives stated in the description, the service auditor should determine from management whether it is possible for the controls to be tested before and after the change, and if it is not possible, to determine the effect on the service auditor's report.</p>	<p>they generally would not affect user auditors' considerations.</p>
<p>.29 A service auditor's report expressing an opinion on a description of controls placed in operation at a service organization should contain—</p>	<p>Par. 57, SSAE: The service auditor's report should include the following elements: (Ref: par. A 38–A41)</p>	
<p>a. A specific reference to the applications, services, products, or other aspects of the service organization covered.</p>	<p>Par. 57c, SSAE: The service auditor's report should include the following elements: (Ref: par. A 38–A41)</p> <p>(c) Identification of the following: (1) The description of the service organization's system prepared by management of the service organization, and management's assertion about the matters identified in the definitions, in paragraph 7, of "Report on a description of a service organization's system and the suitability of the design of controls" ...</p>	
<p>b. A description of the scope and nature of the service auditor's procedures.</p>	<p>Par. 57h, SSAE: The service auditor's report should include the following elements: (Ref: par. A 38–A41)</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
	<p><i>h.</i> A summary of the service auditor's procedures to obtain reasonable assurance and, in the case of a type1 report, a statement that the service auditor has not performed any procedures regarding the operating effectiveness of controls and, therefore, expresses no opinion thereon.</p>	
<p>c. Identification of the party specifying the control objectives.</p>	<p>Par. 57<i>f</i>, SSAE: The service auditor's report should include the following elements: (Ref: par. A 38–A41)</p> <p><i>f.</i> A description of the service organization's and the service auditor's responsibilities, including a statement that management of the service organization is responsible for the following:</p> <p>(3) Specifying the control objectives and stating them in the description of the service organization's system. If the control objectives are specified by law, regulation, or another party (for example, a user group or a professional body), management is responsible for identifying, in the description, the party specifying the control objectives</p>	
<p>d. An indication that the purpose of the service auditor's engagement was to obtain reasonable assurance about whether (1) the service organization's description presents fairly, in all material respects, the aspects of the service organization's controls that may be relevant to a user organization's internal control as it relates to an audit of financial statements, (2) the controls were suitably designed to achieve specified control objectives, and (3) such controls had been placed in operation as of a specific date.</p>	<p>Excerpt from the illustrative type 1 service auditor's report in Exhibit B of the proposed SSAE:</p> <p><i>Service auditor's responsibilities</i> Our responsibility is to express an opinion on the fairness of the presentation of the description and on the suitability of the design of controls in achieving the related control objectives stated in the description, based on our procedures. We conducted our examination in accordance with Statements on Standards for Attestation Engagements issued by the American Institute of Certified Public Accountants. Those standards require that we plan and perform our procedures to obtain reasonable assurance about whether the description is fairly presented and the controls are suitably designed to achieve the related control objectives stated in the description as of [date] in all material respects.</p> <p><i>Opinion</i> In our opinion, based on the criteria described in</p>	<p>This is not listed as a required report element in paragraph 57 of the proposed SSAE. However, it is stated in the illustrative service auditor's report in exhibit B.</p>

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization and Proposed SAS, Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
	<p>management's assertion on page [aa], in all material respects</p> <p>a. the description of XYZ Service Organization's system fairly presents the [type or name of] system that was designed and implemented as of [date], and</p> <p>b. the controls related to the control objectives stated in the description of XYZ Service Organization's system were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively as of [date].</p>	
e. A disclaimer of opinion on the operating effectiveness of the controls.	<p>Par. 57h, SSAE: The service auditor's report should include the following elements: (Ref: par. A 38–A41)</p> <p>h. in the case of a type1 report, a statement that the service auditor has not performed any procedures regarding the operating effectiveness of controls and, therefore, expresses no opinion thereon.</p>	.
f. The service auditor's opinion on whether the description presents fairly, in all material respects, the relevant aspects of the service organization's controls that had been placed in operation as of a specific date and whether, in the service auditor's opinion, the controls were suitably designed to provide reasonable assurance that the specified control objectives would be achieved if those controls were complied with satisfactorily.	<p>Par. 57i, SSAE: The service auditor's report should include the following elements: (Ref: par. A 38–A41)</p> <p>i. The service auditor's opinion on whether, in all material respects, based on the criteria specified in management's assertion:</p> <p>(2) In the case of a type 1 report,</p> <p>(a) The description of the service organization's system fairly presents the service organization's system that was designed and implemented as of the specified date</p> <p>(b) The controls related to the control objectives stated in the 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</p>	.
g. A statement of the inherent limitations of the potential effectiveness of controls at the service organization and of the risk of projecting to future periods any evaluation of the description.	<p>Par 57e, SSAE: The service auditor's report should include the following elements: (Ref: par. A 38–A41)</p> <p>e. A statement of the inherent limitations of the potential effectiveness of controls at the service organization and of</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
	the risk of projecting to the future any evaluation of the description of the service organization's system or any conclusions about the effectiveness of controls in achieving the related control objectives stated in the description.	
h. Identification of the parties for whom the report is intended.	<p>Par. 57j, SSAE: The service auditor's report should include the following elements: (Ref: par. A 38–A41)</p> <p>j. A paragraph at the end of the report that contains the following elements (Ref: par. A39):</p> <p>(2) In the case of a type 1 report,</p> <p>(a) a statement restricting the use the service auditor's report to management of the service organization, customers of the service organization's system as of the end of the period covered by the service auditor's report, and their auditors.</p> <p>(b) a statement that the report is not intended to be and should not be used by anyone other than these specified parties.</p>	
.30 If the service auditor believes that the description is inaccurate or insufficiently complete for user auditors, the service auditor's report should so state and should contain sufficient detail to provide user auditors with an appropriate understanding.	<p>Par. 60, SSAE: If the service auditor concludes that: (Ref: par. A41)</p> <p>a. management's description of the service organization's system is not presented fairly in all material respects;</p> <p>b.</p> <p>c.</p> <p>d.</p> <p>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.</p>	
.31 It may become evident to the service auditor, when considering the service organization's description of controls placed in operation, that the system was designed with the assumption that certain controls would be implemented by the user organization. If the service auditor is aware of the need for such complementary user organization controls, these	<p>Par. 7, SSAE: Complementary user entity controls. Controls that the service organization assumes, in the design of its service, will be implemented by user entities, and which, if necessary to achieve the control objectives stated in the description of the service organization's system, are identified as such in that description.</p> <p>Par. 57 (c)(3), SSAE: The service auditor's report should</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>should be delineated in the description of controls. If the application of controls by user organizations is necessary to achieve the stated control objectives, the service auditor's report should be modified to include the phrase "and user organizations applied the controls contemplated in the design of the Service Organization's controls" following the words "complied with satisfactorily" in the scope and opinion paragraphs.</p>	<p>include the following elements: (Ref: par. A 38–A41)</p> <p>If the 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</p> <p>Par. 58, SSAE: If the application of complementary user entity controls is necessary to achieve the control objectives stated in the description of the service organization's system, the service auditor should add the phrase,</p> <ul style="list-style-type: none"> • • • "and customers applied the complementary user entity controls contemplated in the design of XYZ Service Organization's controls as of [<i>date</i>]" at the end of subparagraph 57<i>i</i> (2)(b) of the opinion paragraph in a type 1 report. <p>Par. A26, SAS: In certain circumstances, a service provided by the service organization may be designed with the assumption that certain controls will be implemented by the user entity. For example, the service may be designed with the assumption that the user entity will have controls in place for authorizing transactions before they are sent to the service organization for processing. In such a situation, the description of the service organization's system may include a description of those complementary user entity controls. The user auditor considers whether those complementary user entity controls are required and whether they are relevant to the service provided to the user entity. (Ref: par. 13c)</p>	
<p>.32 The service auditor should consider conditions that come to his or her attention that, in the service auditor's judgment, represent significant deficiencies in the design or operation</p>	<p>Par. 61, SSAE: The service auditor also should modify the report if information, irrespective of specified control objectives, comes to the service auditor's attention that causes him or her to conclude (1) that design deficiencies</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>of the service organization's controls that preclude the service auditor from obtaining reasonable assurance that specified control objectives would be achieved. The service auditor should also consider whether any other information, irrespective of specified control objectives, has come to his or her attention that causes him or her to conclude (a) that design deficiencies exist that could adversely affect the ability to initiate, authorize, record, process, or report financial data to user organizations without error, and (b) that user organizations would not generally be expected to have controls in place to mitigate such design deficiencies.</p>	<p>exist that could adversely affect the ability of the service organization to initiate, authorize, record, process, or report financial data to user organizations without error, and (2) that user organizations would not generally be expected to have controls in place to mitigate such design deficiencies.</p>	
<p>.33 The description of controls and control objectives required for these reports may be prepared by the service organization. If the service auditor prepares the description of controls and control objectives, the representations in the description remain the responsibility of the service organization.</p>		<p>Not included in the proposed SSAE.</p>
<p>.34 For the service auditor to express an opinion on whether the controls were suitably designed to achieve the specified control objectives, it is necessary that—</p> <p>a. The service organization identify and appropriately describe such control objectives and the relevant controls.</p> <p>b. The service auditor consider the linkage of the controls to the stated control objectives.</p> <p>c. The service auditor obtain sufficient evidence to reach an opinion.</p>	<p>Par. 35, SSAE: The service auditor should determine which of the controls at the service organization are necessary to achieve the control objectives stated in the description of the service organization's system, and should assess whether they were suitably designed to achieve the control objectives by:</p> <p>a. identifying the risks that threaten the achievement of the control objectives stated in the description.</p> <p>b. evaluating the linkage of the controls identified in the description with those risks.</p> <p>Par. 16, SSAE: Suitable criteria for evaluating whether controls are 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 should include,</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
	<p>at a minimum, whether</p> <p>a. the risks that threaten the achievement of the control objectives stated in the description have been identified.</p> <p>b. the identified controls would, if operating as described, provide reasonable assurance that those risks would not prevent the control objectives stated in the description from being achieved.</p>	
<p>.35 The control objectives may be designated by the service organization or by outside parties such as regulatory authorities, a user group, or others. When the control objectives are not established by outside parties, the service auditor should be satisfied that the control objectives, as set forth by the service organization, are reasonable in the circumstances and consistent with the service organization's contractual obligations.</p>	<p>Par. 33, SSAE: The service auditor should obtain and read the service organization'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:</p> <p>a. The control objectives stated in the description are reasonable in the circumstances;</p>	
<p>.36 The service auditor's report should state whether the controls were suitably designed to achieve the specified control objectives. The report should not state whether they were suitably designed to achieve objectives beyond the specifically identified control objectives.</p>	<p>Par. 57(i)(1)(b), SSAE: The service auditor's report should include the following elements: (Ref: par. A 38–A41)</p> <p>(b).The controls related to the control objectives stated in the description of the service organization's system were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the specified period;</p>	<p>The proposed ISAE does not include the following statement:</p> <p>The report should not state whether they were suitably designed to achieve objectives beyond the specifically identified control objectives.</p>
<p>.37 The service auditor's opinion on whether the controls were suitably designed to achieve the specified control objectives is not intended to provide evidence of operating effectiveness or to</p>	<p>Par. A29, SSAE: Obtaining an understanding of controls sufficient to opine on the suitability of their design is not sufficient evidence regarding their operating effectiveness, unless there is some automation that provides for the</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization and Proposed SAS, Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
provide the user auditor with a basis for concluding that control risk may be assessed as low or moderate.	consistent operation of the controls as they were designed and implemented...	
<p>.38 The following is a sample report on controls placed in operation at a service organization. The report should have, as an attachment, a description of the service organization's controls that may be relevant to a user organization's internal control as it relates to an audit of financial statements. This report is illustrative only and should be modified as appropriate to suit the circumstances of individual engagements.</p> <p>To XYZ Service Organization: We have examined the accompanying description of controls related to the ___ application of XYZ Service Organization. Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of XYZ Service Organization's controls that may be relevant to a user organization's internal control as it relates to an audit of financial statements, (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily,³ and (3) such controls had been placed in operation as of _____. The control objectives were specified by _____. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion. We did not perform procedures to determine the operating effectiveness of controls for any period. Accordingly, we express no opinion on the operating effectiveness of any aspects of XYZ Service Organization's controls, individually or in</p>	<p style="text-align: right;">A44.</p> <p style="text-align: center;">Exhibit B, SSAE:</p> <p>Example 2: Type 1 Service Auditor's Report</p> <p>Independent Service Auditor's Report on a Description of a Service Organization's System and the Suitability of the Design of Controls</p> <p>To: XYZ Service Organization <i>Scope</i> We have examined XYZ Service Organization's description on pages [bb–cc] of the [type or name of] system made available to customers of the system for processing their transactions as of [date], and the suitability of the design of controls to achieve the related control objectives stated in the description.</p> <p><i>Management's responsibilities</i> Management of XYZ Service Organization is responsible for preparing and presenting the description and accompanying assertion on page [aa], 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, selecting the criteria, and designing, implementing, and maintaining controls to achieve the related control objectives stated in the description.</p> <p><i>Service auditor's responsibilities</i> Our responsibility is to express an opinion on the fairness of the presentation of the description and on the suitability of the design of controls in achieving the related control objectives stated in the description, based on our procedures. We conducted our examination in accordance with Statements on Standards for Attestation Engagements issued by the American Institute of Certified Public</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization and Proposed SAS, Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>the aggregate.</p> <p>In our opinion, the accompanying description of the aforementioned application presents fairly, in all material respects, the relevant aspects of XYZ Service Organization's controls that had been placed in operation as of _____. Also, in our opinion, the controls, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily.</p> <p>The description of controls at XYZ Service Organization is as of _____ and any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the controls in existence. The potential effectiveness of specific controls at the Service Organization is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that changes may alter the validity of such conclusions.</p> <p>This report is intended solely for use by the management of XYZ Service Organization, its customers, and the independent auditors of its customers</p> <p>FN3. If the application of controls by user organizations is necessary to achieve the stated control objectives, the service auditor's report should be modified to include the phrase "and user organizations applied the controls contemplated in the design of XYZ Service Organization's controls" following the words "complied with satisfactorily" in the scope and opinion paragraphs.</p>	<p>Accountants. Those standards require that we plan and perform our procedures to obtain reasonable assurance about whether the description is fairly presented and the controls are suitably designed to achieve the related control objectives stated in the description as of [date] in all material respects.</p> <p>An examination of a description of a service organization's system and the suitability of the design of controls in achieving 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. An examination engagement of this type also includes evaluating the overall presentation of the description and the suitability of the control objectives stated in the description.</p> <p>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.</p> <p>We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.</p> <p><u><i>Inherent limitations</i></u> 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. The description of controls at XYZ Service Organization is as of [date] and any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the controls in existence. The potential effectiveness of specific controls at the Service Organization is subject to inherent limitations and, accordingly, fraud or error may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings to future periods, is subject to the risk that changes may alter the validity of such conclusions.</p> <p><i>Opinion</i></p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization and Proposed SAS, Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
	<p>In our opinion, based on the criteria described in management’s assertion on page [aa], in all material respects</p> <ul style="list-style-type: none"> a. the description of XYZ Service Organization’s system fairly presents the <i>[type or name of]</i> system that was designed and implemented as of <i>[date]</i>, and b. the controls related to the control objectives stated in the description of XYZ Service Organization’s system were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively as of <i>[date]</i>. <p><u><i>Restricted use</i></u> This report is intended solely for the information and use of management of XYZ Service Organization, customers of XYZ Service Organization’s <i>[type or name of]</i> system as of <i>[date]</i>, and their auditors, who have a sufficient understanding to consider it, along with other information including information about controls implemented by customers themselves, when obtaining an understanding of customers’ 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.</p> <p><i>[Service auditor’s signature]</i> <i>[Date of the service auditor’s report]</i> <i>[Service auditor’s city]</i></p> <p>Following is a modification of subparagraph “b” of the opinion paragraph in a type 1 report if the application of complementary user entity controls is necessary to achieve the control objectives stated in the description of the service organization’s system (New language is shown in boldface italics):</p> <ul style="list-style-type: none"> <i>b. The controls related to the control objectives stated in the</i> 	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
	description of XYZ Service Organization's [<i>type or name of</i>] system were suitably designed to provide reasonable assurance that those control objectives would be achieved if the controls operated effectively as of [<i>date</i>] and customers applied the complementary user entity controls contemplated in the design of XYZ Service Organization's controls as of [<i>date</i>].	
.39 If the service auditor concludes that the description is inaccurate or insufficiently complete for user auditors, the service auditor should so state in an explanatory paragraph preceding the opinion paragraph. An example of such an explanatory paragraph follows:	<p>Par. 60, SSAE: If the service auditor concludes that (Ref: par. A41)</p> <ul style="list-style-type: none"> a. management's description of the service organization's system is not fairly presented in all material respects, b. c. d. <p>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.</p>	
<p>The accompanying description states that XYZ Service Organization uses operator identification numbers and passwords to prevent unauthorized access to the system. Based on inquiries of staff personnel and inspections of activities, we determined that such procedures are employed in Applications A and B but are not required to access the system in Applications C and D.</p> <p>In addition, the first sentence of the opinion</p>	<p style="text-align: right;">A45. Exhibit C, SSAE:</p> <p>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</p> <p><i>[Illustrative explanatory paragraph that would be inserted before the modified opinion paragraph. All other report paragraphs are unchanged.]</i></p> <p><u>Explanatory paragraph</u> The accompanying description of the [<i>type or name of</i>] system states on page [<i>mn</i>] 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.</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>paragraph would be modified to read as follows: In our opinion, except for the matter referred to in the preceding paragraph, the accompanying description of the aforementioned application presents fairly, in all material respects, the relevant aspects of XYZ Service Organization's controls that had been placed in operation as of .</p>	<p><i>Opinion</i> In our opinion, except for the matter described in the preceding paragraph, and based on the criteria described in management's assertion on page [aa], in all material respects....</p>	
<p>.40 If, after applying the criteria in paragraph .32, the service auditor concludes that there are significant deficiencies in the design or operation of the service organization's controls, the service auditor should report those conditions in an explanatory paragraph preceding the opinion paragraph. An example of an explanatory paragraph describing a significant deficiency in the design or operation of the service organization's controls follows: As discussed in the accompanying description, from time to time the Service Organization makes changes in application programs to correct deficiencies or to enhance capabilities. The procedures followed in determining whether to make changes, in designing the changes, and in implementing them do not include review and approval by authorized individuals who are independent from those involved in making the changes. There are also no specified requirements to test such changes or provide test results to an authorized reviewer prior to implementing the changes.</p> <p>In addition, the second sentence of the opinion paragraph would be modified to read as follows: Also in our opinion, except for the deficiency referred to in the preceding paragraph, the controls, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily.</p>	<p>Par. 60, SSAE: If the service auditor concludes that (Ref: par. A41)</p> <p>a. b. 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 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 the description, d.</p> <p>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.</p> <p style="text-align: right;">A45.</p> <p style="text-align: right;">Exhibit C, SSAE:</p> <p>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</p> <p><i>[Illustrative explanatory paragraph that would be inserted before the modified opinion paragraph. All other report paragraphs are unchanged.]</i></p> <p><u>Explanatory paragraph</u> As discussed at page [mn] of the accompanying description, from time to time, XYZ Service Organization makes changes in application programs to correct deficiencies or to enhance capabilities. The procedures followed in determining whether to make changes, in designing the</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
	<p>changes, and in implementing them do not include review and approval by authorized individuals who are independent from those involved in making the changes. There are also no specified requirements to test such changes or provide test results to an authorized reviewer prior to implementing the changes.</p> <p><i>Opinion</i> In our opinion, except for the matter described in the preceding paragraph, and based on the criteria described in management's assertion on page [aa], in all material respects...</p> <p>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</p> <p><i>[Illustrative explanatory paragraph that would be inserted before the modified opinion paragraph. All other report paragraphs are unchanged.]</i></p> <p><u><i>Explanatory paragraph</i></u> XYZ Service Organization states in its description of the [type or name of] system that it has automated controls in place to reconcile loan payments received with the various output reports. However, as noted at 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. Management 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.</p> <p><i>Opinion</i> In our opinion, except for the matter described in the preceding paragraph, and based on the criteria described in</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
	management's assertion on page [aa], in all material respects...	
<p>Reports on Controls Placed in Operation and Tests of Operating Effectiveness <i>Paragraphs .41 through .56 repeat some of the information contained in paragraphs .25 through .40 to provide readers with a comprehensive, stand-alone presentation of the relevant considerations for each type of report.</i></p>		
<p>.41 The information necessary for a report on controls placed in operation and tests of operating effectiveness ordinarily is obtained through discussions with appropriate service organization personnel, through reference to various forms of documentation, such as system flowcharts and narratives, and through the performance of tests of controls. Evidence of whether controls have been placed in operation is ordinarily obtained through previous experience with the service organization and through procedures such as inquiry of appropriate management, supervisory, and staff personnel; inspection of service organization documents and records; and observation of service organization activities and operations. The service auditor applies tests of controls to determine whether specific controls are operating with sufficient effectiveness to achieve specified control objectives. Section 350, Audit Sampling, provides guidance on the application and evaluation of audit sampling in performing tests of controls.</p>	<p>Par. 34, SSAE: The service auditor should determine, through inquiries of management and other service organization personnel in combination with other procedures, whether the service organization's system described in management's description has been implemented.</p> <p>Par. A21, SSAE: The service auditor's procedures to evaluate the fair presentation of the description of the service organization's system may include the following:</p> <ul style="list-style-type: none"> • 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 standard contracts or standard terms of 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 <p>Par. 39, SSAE: 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. If the service auditor determines that sampling</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization and Proposed SAS, Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
	is appropriate, the service auditor should refer to AU section 350, <i>Audit Sampling</i> (AICPA, <i>Professional Standards</i> , vol.1).	
<p>.42 After obtaining a description of the relevant controls, the service auditor should determine whether the description provides sufficient information for user auditors to obtain an understanding of those aspects of the service organization's controls that may be relevant to a user organization's internal control. The description should contain a discussion of the features of the service organization's controls that would have an effect on a user organization's internal control. Such features are relevant when they directly affect the service provided to the user organization. They may include controls within the control environment, risk assessment, control activities, information and communication, and monitoring components of internal control. The control environment may include hiring practices and key areas of authority and responsibility. Risk assessment may include the identification of risks associated with processing specific transactions. Control activities may include policies and procedures over the modification of computer programs and are ordinarily designed to meet specific control objectives. The specific control objectives of the service organization should be set forth in the service organization's description of controls. Information and communication may include ways in which user transactions are initiated and processed. Monitoring may include the involvement of internal auditors.</p>	<p>Par. 15, SSAE: Suitable criteria for evaluating whether the description of the service organization's system is fairly presented should include, at a minimum, whether the description</p> <p>a. presents how the service organization's system made available to user entities was designed and implemented to process relevant transactions, including the following information about the service organization's system:</p> <ol style="list-style-type: none"> (1) The classes of transactions processed (2) The procedures, within both automated and manual systems, by which transactions are initiated, authorized, recorded, processed, corrected as necessary, and reported to user entities (3) 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 presented to user entities (4) How the service organization's system captures significant events and conditions, other than transactions (5) The process used to prepare reports provided to user entities (6) The specified control objectives and controls designed to achieve those objectives (7) 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 achieving the control objectives stated in the description of the service organization's system. 	<p>AU section 324 addresses whether the description provides sufficient information. The proposed SSAE addresses whether the description is fairly presented.</p>
<p>.43 The service auditor should inquire about changes in the service organization's controls that may have occurred before the beginning of fieldwork. If the service auditor believes the</p>	<p>Par. 37, SSAE: 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</p>	<p>The proposed SSAE does not state the following:</p> <p>Changes that occurred more than 12 months</p>

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>changes would be considered significant by user organizations and their auditors, those changes should be included in the description of the service organization's controls. If the service auditor concludes that the changes would be considered significant by user organizations and their auditors and the changes are not included in the description of the service organization's controls, the service auditor should describe the changes in his or her report. Such changes might include—</p> <ul style="list-style-type: none"> • Procedural changes made to accommodate provisions of a new FASB Statement of Financial Accounting Standards. • Major changes in an application to permit on-line processing. • Procedural changes to eliminate previously identified deficiencies. <p>Changes that occurred more than twelve months before the date being reported on normally would not be considered significant, because they generally would not affect user auditors' considerations.</p>	<p>would be considered significant by user entities and their auditors, those changes should be included in the service organization's description. If such changes are not included in the description, the service auditor should describe the changes in his or her report. If the superseded controls are relevant to the achievement during the period of the control objectives stated in the description, the service auditor should determine from management whether it is possible for the controls to be tested before and after the change, and if it is not possible, to determine the effect on the service auditor's report.</p>	<p>before the date being reported on normally would not be considered significant because they generally would not affect user auditors' considerations.</p>
<p>.44 A service auditor's report expressing an opinion on a description of controls placed in operation at a service organization and tests of operating effectiveness should contain—</p>	<p>Par. 57, SSAE: The service auditor's report should include the following elements:</p>	
<p>a. A specific reference to the applications, services, products, or other aspects of the service organization covered.</p>	<p>Par. 57 c, SSAE: The service auditor's report should include the following elements:</p> <p>c. Identification of the following:</p> <p>(1) The description of the service organization's system prepared by management of the service organization, and management's assertion about the matters identified in the definitions, in paragraph 7, of... "report on a description of a service organization's system and the suitability of the design and operating effectiveness of controls."</p>	
<p>b. A description of the scope and nature of the</p>	<p>Par 57h, SSAE: The service auditor's report should include</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
service auditor's procedures.	<p>the following elements:</p> <p><i>h.</i> A summary of the service auditor's procedures to obtain reasonable assurance and, in the case of a type1 report, a statement that the service auditor has not performed any procedures regarding the operating effectiveness of controls and, therefore expresses no opinion thereon.</p>	
c. Identification of the party specifying the control objectives.	<p>Par. 57<i>f</i>, SSAE: The service auditor's report should include the following elements:</p> <p><i>f.</i> A description of the service organization's and the service auditor's responsibilities, including a statement that management of the service organization is responsible for the following:</p> <ul style="list-style-type: none"> (1) (2) (3) Specifying the control objectives and stating them in the description of the service organization's system. If the control objectives are specified by law, regulation, or another party (for example, a user group or a professional body), management is responsible for identifying, in the description, the party specifying the control objectives 	
d. An indication that the purpose of the service auditor's engagement was to obtain reasonable assurance about whether (1) the service organization's description presents fairly, in all material respects, the aspects of the service organization's controls that may be relevant to a user organization's internal control as it relates to an audit of financial statements, (2) the controls were suitably designed to achieve specified control objectives, and (3) such controls had been placed in operation as of a specific date.	<p><i>Service auditor's responsibilities</i></p> <p>Our responsibility is to express an opinion on 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 procedures. We conducted our examination in accordance with Statements on Standards for Attestation Engagements issued by the American Institute of Certified Public Accountants. Those standards require that we plan and perform our procedures to obtain reasonable assurance about whether the description is fairly presented and whether the controls were suitably designed and operating effectively to achieve the related control objectives stated in the description throughout the period [<i>date</i>] to [<i>date</i>] in all material respects.</p> <p><i>Opinion</i></p> <p>In our opinion, based on the criteria described in management's assertion on page [<i>aa</i>], in all material</p>	This is not listed as a required report element in paragraph 57.

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization and Proposed SAS, Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
	<p>respects</p> <p>a. the description of XYZ Service Organization’s system fairly presents the [type or name of] system that was designed and implemented throughout the period [date] to [date].</p> <p>b. the controls related to the control objectives stated in the description of XYZ 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 period [date] to [date].</p> <p>c. the controls we tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description of XYZ Service Organization’s System were achieved, operated effectively throughout the period [date] to [date].</p>	
<p>e. The service auditor's opinion on whether the description presents fairly, in all material respects, the relevant aspects of the service organization's controls that had been placed in operation as of a specific date and whether, in the service auditor's opinion, the controls were suitably designed to provide reasonable assurance that the specified control objectives would be achieved if those controls were complied with satisfactorily.</p>	<p>Par. 57 i(1)(a–b), SSAE:</p> <p>The service auditor’s report should include the following elements:</p> <p>i. The service auditor's opinion on whether, in all material respects, based on the criteria specified in management’s assertion:</p> <p>(1) in the case of a type 2 report,</p> <p>(a) the description of the service organization’s system fairly presents the service organization’s system that was designed and implemented throughout the specified period;</p> <p>(b) the controls related to the control objectives stated in the 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.</p> <p>(c) the controls the service auditor tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the specified period.</p>	<p>In the proposed SSAE, in a type 2 report, the service auditor expresses an opinion on the fairness of the description and on the suitability of the design of the controls <u>throughout the period covered by the report</u>. In extant AU section 324, in a type 2 report, the opinion on the fairness of the description and the suitability of the design are <u>as of a specified date</u>.</p>
<p>f. A reference to a description of tests of specific service organization controls designed to obtain evidence about the operating effectiveness of</p>	<p>Par. 59, SSAE: In the case of a type 2 report, the service auditor’s report should include a separate section after the opinion or an attachment that describes the service auditor’s</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>those controls in achieving specified control objectives. The description should include the controls that were tested, the control objectives the controls were intended to achieve, the tests applied, and the results of the tests. The description should include an indication of the nature, timing, and extent of the tests, as well as sufficient detail to enable user auditors to determine the effect of such tests on user auditors' assessments of control risk. To the extent that the service auditor identified causative factors for exceptions, determined the current status of corrective actions, or obtained other relevant qualitative information about exceptions noted, such information should be provided.</p>	<p>tests of controls and the results thereof. In describing the tests of controls, the service auditor should clearly indicate which controls were tested, the period covered by the testing, 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. If deviations have been identified, the service auditor should include the extent of testing performed by the service auditor that led to the identification of the deviations, the nature of the deviations, and the number of deviations noted. The service auditor should report deviations even if, on the basis of tests performed, the service auditor concludes that the related control objective was achieved, or if the control that was tested is subsequently removed from the description of the service organization's system.</p> <p>Par A40, SSAE: 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.</p>	
<p>g. A statement of the period covered by the service auditor's report on the operating effectiveness of the specific controls tested.</p>	<p>Excerpt from the illustrative type 2 service auditor's report in Exhibit B</p> <p>To: XYZ Service Organization</p> <p><i>Scope</i> We have examined XYZ Service Organization's description on pages [bb–cc] of the [type or name of] system made available to customers of the system throughout the period [date] to [date] for processing their transactions and the suitability of the design and operating effectiveness of controls to achieve the related control objectives stated in the description.</p>	<p>Paragraph 57 does not directly include this as a required report element. It is implied in paragraph 57<i>i</i>, for example,</p> <p><i>i.</i> The service auditor's opinion on whether, in all material respects, based on the criteria specified in management's assertion:</p> <p>(1) In the case of a type 2 report,</p> <p>a. The description fairly presents the service organization's system that was designed and implemented <u>throughout the specified period</u>;</p>
<p>h. The service auditor's opinion on whether the controls that were tested were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the related control objectives were achieved during the period</p>	<p>57<i>i</i>(1)(c), SSAE The service auditor's report should include the following elements</p> <p><i>i.</i> The service auditor's opinion on whether, in all material respects, based on the criteria specified in management's assertion:</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
specified.	(1) In the case of a type 2 report, c. The controls the service auditor tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the specified period.	
i. When all of the control objectives listed in the description of controls placed in operation are not covered by tests of operating effectiveness, a statement that the service auditor does not express an opinion on control objectives not listed in the description of tests performed at the service organization.	Par. 57c (2) SSAE: The service auditor's report should include the following elements c Identification of the following: (2) If parts of the description of the service organization's system are not covered by the service auditor's report, an identification of those parts;	
j. A statement that the relative effectiveness and significance of specific service organization controls and their effect on assessments of control risk at user organizations are dependent on their interaction with the controls and other factors present at individual user organizations.		Not included in the proposed SSAE.
k. A statement that the service auditor has performed no procedures to evaluate the effectiveness of controls at individual user organizations.		Not included in the proposed SSAE.
l. A statement of the inherent limitations of the potential effectiveness of controls at the service organization and of the risk of projecting to the future any evaluation of the description or any conclusions about the effectiveness of controls in achieving control objectives.	Par. 57f, SSAE: The service auditor's report should include the following elements: f. A statement of the inherent limitations of the potential effectiveness of controls at the service organization and of the risk of projecting to the future any evaluation of the description of the service organization's system or any conclusions about the effectiveness of controls in achieving the related control objectives stated in the description	
m. Identification of the parties for whom the report is intended.	Par. 57j, SSAE: The service auditor's report should include the following elements: A paragraph at the end of the report that contains the following elements (Ref: par. A39): (1) In the case of a type 2 report, (a) a statement restricting the use of the service auditor's report and description of tests of controls and results thereof to management of the service organization, customers of	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization and Proposed SAS, Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
	<p>the service organization's system during some or all of the period covered by the service auditor's report and their auditors.</p> <p>(b) a statement that the report is not intended to be and should not be used by anyone other than these specified parties.</p>	
<p>.45 If the service auditor believes that the description is inaccurate or insufficiently complete for user auditors, the service auditor's report should so state and should contain sufficient detail to provide user auditors with an appropriate understanding.</p>	<p>Par. 60, SSAE: If the service auditor concludes that: (Ref: Para. A41–A42)</p> <ul style="list-style-type: none"> a. management's description of the service organization's system is not fairly presented in all material respects; b. c. d. <p>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.</p>	
<p>.46 It may become evident to the service auditor, when considering the service organization's description of controls placed in operation, that the system was designed with the assumption that certain controls would be implemented by the user organization. If the service auditor is aware of the need for such complementary user organization controls, these should be delineated in the description of controls. If the application of controls by user organizations is necessary to achieve the stated control objectives, the service auditor's report should be modified to include the phrase "and user organizations applied the controls contemplated in the design of the Service Organization's controls" following the words "complied with satisfactorily" in the scope and opinion paragraphs. Similarly, if the operating effectiveness of controls at the service organization is dependent on the application of controls at user organizations, this should be delineated in the description of tests performed.</p>	<p>Par. 7, SSAE: Complementary user entity controls – Controls that the service organization assumes, in the design of its service, will be implemented by user entities, and which, if necessary to achieve the control objectives stated in the description of the service organization's system, are identified as such in that description.</p> <p>Par. 58 SSAE: If the application of complementary user entity controls is necessary to achieve the control objectives stated in the description of the service organization's system, the service auditor should add the phrase,</p> <ul style="list-style-type: none"> • "and customers applied the complementary user entity controls contemplated in the design of XYZ Service Organization's controls throughout the period [date] to [date]," at the end of subparagraph 57i (1)(b) of the opinion paragraph of a type 2 report, • "if customers applied the complementary user entity controls contemplated in the design of XYZ Service Organization's controls throughout the period [date] to [date]," at the end of subparagraph 57i (1)(c) of the opinion paragraph of a type 2 report 	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>.47 The service auditor should consider conditions that come to his or her attention that, in the service auditor's judgment, represent significant deficiencies in the design or operation of the service organization's controls that preclude the service auditor from obtaining reasonable assurance that specified control objectives would be achieved. The service auditor should also consider whether any other information, irrespective of specified control objectives, has come to his or her attention that causes him or her to conclude (a) that design deficiencies exist that could adversely affect the ability to initiate, authorize, record, process, or report financial data to user organizations without error, and (b) that user organizations would not generally be expected to have controls in place to mitigate such design deficiencies.</p>	<p>Par. 61, SSAE: The service auditor also should modify the report if information, irrespective of specified control objectives, comes to the service auditor's attention that causes him or her to conclude (1) that design deficiencies exist that could adversely affect the ability of the service organization to initiate, authorize, record, process, or report financial data to user organizations without error, and (2) that user organizations would not generally be expected to have controls in place to mitigate such design deficiencies.</p>	
<p>.48 The description of controls and control objectives required for these reports may be prepared by the service organization. If the service auditor prepares the description of controls and control objectives, the representations in the description remain the responsibility of the service organization.</p>		<p>Not included in the proposed SSAE.</p>
<p>.49 For the service auditor to express an opinion on whether the controls were suitably designed to achieve the specified control objectives, it is necessary that—</p> <ul style="list-style-type: none"> a. The service organization identify and appropriately describe such control objectives and the relevant controls. b. The service auditor consider the linkage of the controls to the stated control objectives. c. The service auditor obtain sufficient evidence to reach an opinion. 	<p>Par. 35, SSAE: The service auditor should determine which of the controls at the service organization are necessary to achieve the control objectives stated in the description of the service organization's system, and should assess whether they were suitably designed to achieve those control objectives by:</p> <ul style="list-style-type: none"> a. identifying the risks that threaten the achievement of the control objectives stated in the description; and b. evaluating the linkage of the controls identified in the description with those risks <p>Par. A5, SSAE: The controls are suitably designed if:</p> <ul style="list-style-type: none"> a. the risks that threaten achievement of the control objectives stated in the description have been identified; and b. the identified controls would, if operated as described, 	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization and Proposed SAS, Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
	provide reasonable assurance that those risks do not prevent the control objectives stated in the description from being achieved.	
.50 The control objectives may be designated by the service organization or by outside parties such as regulatory authorities, a user group, or others. When the control objectives are not established by outside parties, the service auditor should be satisfied that the control objectives, as set forth by the service organization, are reasonable in the circumstances and consistent with the service organization's contractual obligations.	<p>Par. 33, SSAE: The service auditor should obtain and read the service organization'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:</p> <p>a. The control objectives stated in the description are reasonable in the circumstances;</p> <p>Par. 57, SSAE: The service auditor's report should include the following elements</p> <p>f. A description of the service organization's and the service auditor's responsibilities, including a statement that management of the service organization is responsible for the following:</p> <p>(3) Specifying the control objectives and stating them in the description of the service organization's system. If the control objectives are specified by law, regulation, or another party (for example, a user group or a professional body), management is responsible for identifying, in the description, the party specifying the control objectives</p>	
.51 The service auditor's report should state whether the controls were suitably designed to achieve the specified control objectives. The report should not state whether they were suitably designed to achieve objectives beyond the specifically identified control objectives.	<p>Par. 57(i)(1)(b), SSAE: The service auditor's report should include the following elements:</p> <p>i. The service auditor's opinion on whether, in all material respects, based on the criteria specified in management's assertion:</p> <p>(1) in the case of a type 2 report,</p> <p>(b) The controls related to the control objectives stated in the 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;</p>	The proposed SSAE does not state, "The report should not state whether they were suitably designed to achieve objectives beyond the specifically identified control objectives."
.52 The service auditor's opinion on whether	Par. A29, SSAE: Obtaining an understanding of controls	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>the controls were suitably designed to achieve the specified control objectives is not intended to provide evidence of operating effectiveness or to provide the user auditor with a basis for concluding that control risk may be assessed as low or moderate. Evidence that may enable the user auditor to conclude that control risk may be assessed as low or moderate may be obtained from the results of specific tests of operating effectiveness.</p>	<p>sufficient to opine on the suitability of their design is not sufficient evidence regarding their operating effectiveness unless there is some automation that provides for the consistent operation of the controls as they were designed and implemented. For example, obtaining information about the implementation of a manual control at a point in time does not provide evidence about operation of the control at other times. However, because of the inherent consistency of IT processing, performing procedures to determine the design of an automated control and whether it has been implemented may serve as evidence of that control's operating effectiveness, depending on the service auditor's assessment and testing of controls such as those over program changes.</p>	
<p>.53 The management of the service organization specifies whether all or selected applications and control objectives will be covered by the tests of operating effectiveness. The service auditor determines which controls are, in his or her judgment, necessary to achieve the control objectives specified by management. The service auditor then determines the nature, timing, and extent of the tests of controls needed to evaluate operating effectiveness. Testing should be applied to controls in effect throughout the period covered by the report. To be useful to user auditors, the report should ordinarily cover a minimum reporting period of six months.</p>	<p>Par. A30, SSAE: To be useful to user auditors, a type 2 report ordinarily covers a minimum period of six months. If the period is less than six months, the service organization's description of the system 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:</p> <ul style="list-style-type: none"> a. 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. b. The service organization or a particular system or application has been in operation for less than six months. c. <i>Significant</i> 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. 	<p>The minimum six-month reporting period is included in the application material of the proposed SSAE. It is a requirement in extant AU section 324.</p>

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization and Proposed SAS, Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>.54 The following is a sample report on controls placed in operation at a service organization and tests of operating effectiveness. It should be assumed that the report has two attachments: (a) a description of the service organization's controls that may be relevant to a user organization's internal control as it relates to an audit of financial statements and (b) a description of controls for which tests of operating effectiveness were performed, the control objectives the controls were intended to achieve, the tests applied, and the results of those tests. This report is illustrative only and should be modified as appropriate to suit the circumstances of individual engagements.</p> <p>To XYZ Service Organization:</p> <p>We have examined the accompanying description of controls related to the- _____ application of XYZ Service Organization. Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of XYZ Service Organization's controls that may be relevant to a user organization's internal control as it relates to an audit of financial statements, (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily, ⁴and (3) such controls had been placed in operation as of _____. The control objectives were specified by _____. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion</p> <p>In our opinion, the accompanying description of</p>	<p style="text-align: right;">A44. Exhibit B, SSAE:</p> <p>Illustrative Service Auditor's Reports</p> <p>The following illustrative reports are for guidance only and are not intended to be exhaustive or applicable to all situations.</p> <p>Example 1: Type 2 Service Auditor's Report</p> <p>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</p> <p>To: XYZ Service Organization</p> <p><i>Scope</i> We have examined XYZ Service Organization's description on pages [bb–cc] of the [type or name of] system made available to customers of the system throughout the period [date] to [date] for processing their transactions and the suitability of the design and operating effectiveness of controls to achieve the related control objectives stated in the description.</p> <p><i>Management's responsibilities</i> Management of XYZ Service Organization is responsible for preparing and presenting the description and accompanying assertion on page [aa], including the completeness, accuracy, and method of presentation of the description and assertion, providing the services covered by the description, specifying the control objectives and stating them in the description, selecting the criteria, and designing, implementing, and maintaining controls to achieve the control objectives stated in the description.</p> <p><i>Service auditor's responsibilities</i> 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</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization and Proposed SAS, Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>the aforementioned application presents fairly, in all material respects, the relevant aspects of XYZ Service Organization's controls that had been placed in operation as of _____. Also, in our opinion, the controls, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily.</p> <p>In addition to the procedures we considered necessary to render our opinion as expressed in the previous paragraph, we applied tests to specific controls, listed in Schedule X, to obtain evidence about their effectiveness in meeting the control objectives, described in Schedule X, during the period from _____ to _____. The specific controls and the nature, timing, extent, and results of the tests are listed in Schedule X. This information has been provided to user organizations of XYZ Service Organization and to their auditors to be taken into consideration, along with information about the internal control at user organizations, when making assessments of control risk for user organizations.</p> <p>In our opinion the controls that were tested, as described in Schedule X, were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives specified in Schedule X were achieved during the period from _____ to _____. [However, the scope of our engagement did not include tests to determine whether control objectives not listed in Schedule X were achieved; accordingly, we express no opinion on the achievement of control objectives not included in Schedule X.]⁵</p> <p>The relative effectiveness and significance of specific controls at XYZ Service Organization and their effect on assessments of control risk at user organizations are dependent on their</p>	<p>achieve the related control objectives stated in the description, based on our procedures. We conducted our examination in accordance with Statements on Standards for Attestation Engagements issued by the American Institute of Certified Public Accountants. Those standards require that we plan and perform our procedures to obtain reasonable assurance about whether the description is fairly presented and whether the controls were suitably designed and operating effectively to achieve the related control objectives stated in the description throughout the period [date] to [date] in all material respects.</p> <p>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 involves performing procedures to obtain evidence about the fairness of the presentation of the description and about 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, whether due to fraud or error. Our procedures included testing the operating effectiveness of those controls that we consider necessary to provide reasonable assurance that the 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 in the description. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.</p> <p><u><i>Inherent limitations</i></u> 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. The description of XYZ Service Organization's [type or name of] system and information about tests of the operating effectiveness of specific controls covers the period [date] to [date]. Any projection of such information to the future is subject to the</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization and Proposed SAS, Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>interaction with the controls and other factors present at individual user organizations. We have performed no procedures to evaluate the effectiveness of controls at individual user organizations.</p> <p>The description of controls at XYZ Service Organization is as of ___, and information about tests of the operating effectiveness of specific controls covers the period from ___ to ___. Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the controls in existence. The potential effectiveness of specific controls at the Service Organization is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that changes may alter the validity of such conclusions.</p> <p>This report is intended solely for use by the management of XYZ Service Organization, its customers, and the independent auditors of its customers.</p> <p>FN4 If the application of controls by user organizations is necessary to achieve the stated control objectives, the service auditor's report should be modified to include the phrase "and user organizations applied the controls contemplated in the design of XYZ Service Organization's controls" following the words "complied with satisfactorily" in the scope and opinion paragraphs.</p> <p>FN5This sentence should be added when all of the control objectives listed in the description of controls placed in operation are not covered by the tests of operating effectiveness. This sentence would be omitted when all of the control objectives listed in the description of controls placed in operation are included in the tests of operating effectiveness.</p>	<p>risk that, because of change, the description may no longer portray the controls in existence. The potential effectiveness of specific controls at the Service Organization is subject to inherent limitations and, accordingly, fraud or error may occur and not be detected. Also, the projection of any conclusions based on our findings to future periods is subject to the risk that changes may alter the validity of such conclusions.</p> <p><i>Opinion</i> In our opinion, based on the criteria described in management's assertion on page [aa], in all material respects</p> <p>a. the description of XYZ Service Organization's System fairly presents the [type or name of] system that was designed and implemented throughout the period [date] to [date].</p> <p>b. the controls related to the control objectives stated in the description of XYZ 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 period [date] to [date].</p> <p>c. the controls we tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description of XYZ Service Organization's System were achieved, operated effectively throughout the period [date] to [date].</p> <p><i>Description of tests of controls</i> The specific controls that were tested and the nature, timing, and results of those tests are listed on pages [yy-zz].</p> <p><i>Restricted use</i> This report and the description of tests of controls on pages [yy-zz] are intended solely for the information and use of management of XYZ Service Organization, customers of the [type or name of] system during some or all of the period [date] to [date], and their financial statement auditors, who have a sufficient understanding to consider it, along with</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
	<p>other information including information about controls implemented by customers themselves, when assessing the risks of material misstatements of customers' financial statements. This report is intended to be and should not be used by anyone other than these specified parties.</p> <p>[<i>Service auditor's signature</i>] [<i>Date of the service auditor's report</i>] [<i>Service auditor's city</i>]</p> <p>Following is a modification of subparagraphs 57i (1)(b) and 57i (1)(c) of the opinion paragraph of a type 2 report if the application of complementary controls by user entities is necessary to achieve the control objectives stated in the description of the service organization's system (New language is shown in boldface italics):</p> <p><i>b.</i> The controls related to the control objectives stated in the description of XYZ 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 period [date] to [date] and customers applied the complementary user entity controls contemplated in the design of XYZ Service Organization's controls throughout the period [date] to [date].</p> <p><i>c.</i> The controls we tested, which were those necessary to provide reasonable assurance that the related control objectives stated in the description were achieved, operated effectively throughout the period [date] to [date] if customers applied the complementary user entity controls contemplated in the design of XYZ Service Organization's controls throughout the period [date] to [date].</p> <p>Following is a modification of the paragraph that describes management's responsibilities to be used in a type 1 or type 2 report when the control objectives have been specified by an outside party. (New language is shown in boldface italics):</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
	<p>Management of XYZ Service Organization is responsible for preparing and presenting the description of its [<i>type or name of</i>] system and accompanying assertion on page [<i>aa</i>], including the completeness, accuracy₁ and method of presentation of the description and assertion, providing the services covered by the description, selecting the criteria, and designing, implementing₁ and maintaining controls to achieve the control objectives stated in the description. <i>The control objectives have been specified by [name of party specifying the control objectives] and are stated on page [aa] of the description.</i></p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>The accompanying description states that XYZ Service Organization uses operator identification numbers and passwords to prevent unauthorized access to the system. Based on inquiries of staff personnel and inspection of activities, we determined that such procedures are employed in Applications A and B but are not required to access the system in Applications C and D.</p> <p>In addition, the first sentence of the opinion paragraph would be modified to read as follows:</p> <p>In our opinion, except for the matter referred to in the preceding paragraph, the accompanying description of the aforementioned application presents fairly, in all material respects, the relevant aspects of XYZ Service Organization's controls that had been placed in operation as of</p>	<p style="text-align: right;">A45. Exhibit C, SSAE:</p> <p><u>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</u></p> <p><i>[Illustrative explanatory paragraph that would be inserted before the modified opinion paragraph. All other report paragraphs are unchanged.]</i></p> <p><u>Explanatory paragraph</u> The accompanying description of the [<i>type or name of</i>] system states on page [<i>mn</i>] 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.</p> <p><i>Opinion</i> In our opinion, except for the matter described in the preceding paragraph, and based on the criteria described in management's assertion on page [<i>aa</i>], in all material respects...</p>	
<p>.56 If, after applying the criteria in paragraph .47, the service auditor concludes that there are significant deficiencies in the design or operation of the service organization's controls, the service auditor should report those conditions in an explanatory paragraph preceding the opinion paragraph. An example of an explanatory paragraph describing a significant deficiency in</p>	<p style="text-align: right;">A45. Exhibit C, SSAE:</p> <p>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</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>the design or operation of the service organization's controls follows:</p> <p>As discussed in the accompanying description, from time to time the Service Organization makes changes in application programs to correct deficiencies or to enhance capabilities. The procedures followed in determining whether to make changes, in designing the changes, and in implementing them do not include review and approval by authorized individuals who are independent from those involved in making the changes. There are also no specified requirements to test such changes or provide test results to an authorized reviewer prior to implementing the changes.</p> <p>In addition, the second sentence of the opinion paragraph would be modified to read as follows:</p> <p>Also in our opinion, except for the deficiency referred to in the preceding paragraph, the controls, as described, are suitably designed to provide reasonable assurance that the related control objectives would be achieved if the described controls were complied with satisfactorily.</p>	<p><i>[Illustrative explanatory paragraph that would be inserted before the modified opinion paragraph. All other report paragraphs are unchanged.]</i></p> <p><u><i>Explanatory paragraph</i></u> As discussed at page [mn] of the accompanying description, from time to time, XYZ Service Organization makes changes in application programs to correct deficiencies or to enhance capabilities. The procedures followed in determining whether to make changes, in designing the changes, and in implementing them do not include review and approval by authorized individuals who are independent from those involved in making the changes. There are also no specified requirements to test such changes or provide test results to an authorized reviewer prior to implementing the changes.</p> <p><u><i>Opinion</i></u> In our opinion, except for the matter described in the preceding paragraph, and based on the criteria described in management's assertion on page [aa], in all material respects...</p>	
Responsibilities of Service Organizations and Service Auditors With Respect to Subsequent Events	Subsequent Events	
.57 Changes in a service organization's controls that could affect user organizations' information systems may occur subsequent to the period covered by the service auditor's report but before the date of the service auditor's report. These occurrences are referred to as subsequent events. A service auditor should consider information about two types of subsequent		

Extant AU Section 324, Service Organizations (AICPA, Professional Standards, vol. 1)	Proposed SSAE, Reporting on Controls at a Service Organization and Proposed SAS, Audit Considerations When an Entity Uses a Service Organization	Comments and Explanations
events that come to his or her attention.		
.58 The first type consists of events that provide additional information about conditions that existed during the period covered by the service auditor's report. This information should be used by the service auditor in determining whether controls at the service organization that could affect user organizations' information systems were placed in operation, suitably designed, and, if applicable, operating effectively during the period covered by the engagement.	Par. 48, SSAE: The service auditor should inquire whether management is aware of any events subsequent to the period covered by the description of the service organization's system up to the date of the service auditor's report that could have a significant effect on the controls at the service organization or on the service auditor's report. If so, and information about that event is not disclosed by the service organization in its description, the service auditor should disclose it in the service auditor's report	
.60 Although a service auditor has no responsibility to detect subsequent events, the service auditor should inquire of management as to whether it is aware of any subsequent events through the date of the service auditor's report that would have a significant effect on user organizations. In addition, a service auditor should obtain a representation from management regarding subsequent events.	<p>Par. 49, SSAE: The service auditor has no obligation to perform any procedures regarding the description of the service organization's system or the suitability of the design or operating effectiveness of the controls after the date of the service auditor's report.</p> <p>Par. 48, SSAE The service auditor should inquire whether management is aware of any events subsequent to the period covered by the description of the service organization's system up to the date of the service auditor's report that could have a significant effect on the controls at the service organization or on the service auditor's report. If so, and information about that event is not disclosed by the service organization, the service auditor should disclose it in the service auditor's report.</p> <p>Par. 42 SSAE: The service auditor should ask management to provide written representations, based on its knowledge and belief</p> <p>c. that they have disclosed to the service auditor any of the following of which they are aware:</p> <p>(5) Subsequent events regarding the services covered by the engagement that could have a significant effect on user entities</p>	AU section 324 does not require the service auditor to disclose subsequent events if they were not disclosed by management. This is a requirement in the proposed SSAE.
Written Representations of the Service Organization's Management .61 Regardless of the type of report issued, the service auditor should obtain written representations from the service organization's management that—	Written Representations (Ref: par. A35–A37) Par. 42, SSAE: The service auditor should ask management, to provide written representations, based on its knowledge and belief,;	

Extant AU Section 324, Service Organizations (AICPA, Professional Standards, vol. 1)	Proposed SSAE, Reporting on Controls at a Service Organization and Proposed SAS, Audit Considerations When an Entity Uses a Service Organization	Comments and Explanations
<ul style="list-style-type: none"> • Acknowledge management's responsibility for establishing and maintaining appropriate controls relating to the processing of transactions for user organizations. • Acknowledge the appropriateness of the specified control objectives. • State that the description of controls presents fairly, in all material respects, the aspects of the service organization's controls that may be relevant to a user organization's internal control. • State that the controls, as described, had been placed in operation as of a specific date. • State that management believes its controls were suitably designed to achieve the specified control objectives. • State that management has disclosed to the service auditor any significant changes in controls that have occurred since the service organization's last examination. • State that management has disclosed to the service auditor any illegal acts, fraud, or uncorrected errors attributable to the service organization's management or employees that may affect one or more user organizations. • State that management has disclosed to the service auditor all design deficiencies in controls of which it is aware, including those for which management believes the cost of corrective action may exceed the benefits. • State that management has disclosed to the service auditor any subsequent events that would have a significant effect on user organizations. 	<p>Not in the proposed SSAE</p> <p>Not included in the representations in the proposed SSAE</p> <p>That reaffirm the assertion accompanying the description of the system</p> <p>(The assertions related to the fairness of the presentation of the description, implementation of controls, suitability of the design of controls, and operating effectiveness of controls is in paragraph 7 of the SSAE in the definition of "Report on a description of a service organization's system and the suitability of the design of controls," and "Report on a description of a service organization's system and the suitability of the design and operating effectiveness of controls.")</p> <p>Not included in the representations in the proposed SSAE</p> <p>(1) Instances of noncompliance with laws and regulations or uncorrected errors attributable to the service organization's management or employees that may affect one or more user entities;</p> <p>(3) Design deficiencies in controls, including those for which management believes the cost of corrective action may exceed the benefits</p> <p>(5) Subsequent events regarding the services covered by the engagement that could have a significant effect on user entities</p>	<p>Fraud is not included in this representation.</p>

Extant AU Section 324, Service Organizations (AICPA, Professional Standards, vol. 1)	Proposed SSAE, Reporting on Controls at a Service Organization and Proposed SAS, Audit Considerations When an Entity Uses a Service Organization	Comments and Explanations
<p>If the scope of the work includes tests of operating effectiveness, the service auditor should obtain a written representation from the service organization's management stating that management has disclosed to the service auditor all instances, of which it is aware, when controls have not operated with sufficient effectiveness to achieve the specified control objectives.</p>	<p>(4) Instances where controls have not operated as described</p>	
<p>Reporting on Substantive Procedures</p>		
<p>.62 The service auditor may be requested to apply substantive procedures to user transactions or assets at the service organization. In such circumstances, the service auditor may make specific reference in his or her report to having carried out the designated procedures or may provide a separate report in accordance with AT section 201, <i>Agreed-Upon Procedures Engagements</i>. Either form of reporting should include a description of the nature, timing, extent, and results of the procedures in sufficient detail to be useful to user auditors in deciding whether to use the results as evidence to support their opinions.</p>	<p>Par. 3, SSAE: In addition to performing an examination of a service organization's controls, a service auditor may be engaged to (a) report on a user entity's transactions or balances² maintained by a service organization; or (b) perform agreed-upon procedures³ 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 dealt with in this SSAE.</p> <p>² Paragraphs .11–.13 of AU section 623, <i>Special Reports</i> (AICPA, <i>Professional Standards</i>, vol. 1), address engagements to report on specified elements, accounts, or items of a financial statement. ³ AT section 201, <i>Agreed-Upon Procedures Engagements</i> (AICPA, <i>Professional Standards</i>, vol. 1), addresses engagements in which a practitioner reports on agreed upon procedures.</p>	
<p>Effective Date .63 This section is effective for service auditors' reports dated after March 31, 1993. Earlier application of this section is encouraged.</p>	<p>Effective Date Par. 5, SSAE: This SSAE is effective for service auditors' reports for periods beginning on or after [date]. Earlier implementation is permitted.</p> <p>Effective Date Par. 6, SAS: This SAS is effective for audits of financial statements for periods beginning on or after [date].</p>	
<p>Service Organizations: Auditing Interpretations of Section 324</p>		
<p>1. Describing Tests of Operating Effectiveness and the Results of Such Tests .01 Question—Paragraph .44f of section 324, <i>Service Organizations</i>, specifies the elements</p>		

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>that should be included in a description of tests of operating effectiveness, which is part of a report on controls placed in operation and tests of operating effectiveness. Section 324.44f states:</p> <p>"...The description should include the controls that were tested, the control objectives the controls were intended to achieve, the tests applied and the results of the tests. The description should include an indication of the nature, timing, and extent of the tests, as well as sufficient detail to enable user auditors to determine the effect of such tests on user auditors' assessments of control risk. To the extent that the service auditor identified causative factors for exceptions, determined the current status of corrective actions, or obtained other relevant qualitative information about exceptions noted, such information should be provided."</p> <p>When a service auditor performs an engagement that includes tests of operating effectiveness, what information and how much detail should be included in the description of the "tests applied" and the "results of the tests"?</p>		
<p>.03 In describing the nature, timing, and extent of the tests applied, the service auditor also should indicate whether the items tested represent a sample or all of the items in the population, but need not indicate the size of the population. In describing the results of the tests, the service auditor should include exceptions and other information that in the service auditor's judgment could be relevant to user auditors. Such exceptions and other information should be included for each control objective, whether or not the service auditor concludes that the control objective has been achieved. When exceptions that could be relevant to user auditors are noted, the description also should include the following information:</p> <ul style="list-style-type: none"> •The size of the sample, when sampling has been used 	<p>Par. 51, SSAE: In documenting the nature, timing, and extent of procedures performed, the service auditor should record the following:</p> <ol style="list-style-type: none"> a. The identifying characteristics of the specific items or matters tested b. Who performed the procedures and the date such procedures were completed c. Who reviewed the work performed and the date and extent of such review <p>Par. 59, SSAE: In the case of a type 2 report, the service auditor's report should include a separate section after the opinion or an attachment that describes the service auditor's tests of controls and the results thereof. In describing the tests of controls, the service auditor should clearly indicate which controls were tested, the period covered by the testing, whether the items tested represent all or a selection</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<ul style="list-style-type: none"> • The number of exceptions noted • The nature of the exceptions <p>If no exceptions or other information that could be relevant to user auditors are identified by the tests, the service auditor should indicate that finding (for example, "No relevant exceptions noted").</p>	<p>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. If deviations have been identified, the service auditor should include the extent of testing performed by the service auditor that led to the identification of the deviations, the nature of the deviations, and the number of deviations noted. The service auditor should report deviations even if, on the basis of tests performed, the service auditor concludes that the related control objective was achieved, or if the control that was tested is subsequently removed from the description of the service organization's system.</p> <p>Par. A40, SSAE: 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.</p>	
<p>2. Service Organizations That Use the Services of Other Service Organizations (Subservice Organizations)</p> <p>.04 Question—A service organization may use the services of another service organization, such as a bank trust department that uses an independent computer processing service organization to perform its data processing. In this situation, the bank trust department is a service organization and the computer processing service organization is considered a subservice organization. How are a user auditor's and a service auditor's procedures affected when a service organization uses a subservice organization?</p>	<p>Par. 7, SSAE: Subservice organization. A service organization used by another service organization to perform some of the services provided to user entities that are part of those user entities' information and communication systems relevant to financial reporting.</p>	
<p>.05 Interpretation—When a service organization uses a subservice organization, the user auditor should determine whether the processing performed by the subservice organization affects assertions in the user organization's financial statements and whether those assertions are significant to the user organization's financial statements. To plan the audit and assess control</p>	<p>Par A10, SAS: The user entity may establish controls over the service organization's services that may be tested by the user auditor and that may enable the user auditor to conclude that the user entity's controls are operating effectively for some or all of the related assertions. If a user entity, for example, uses a service organization to process its payroll transactions, the user entity may establish controls over the submission and receipt of payroll</p>	<p>This requirement is not included in the proposed SAS.</p>

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>risk, a user auditor may need to consider the controls at both the service organization and the subservice organization. Paragraphs .06 through .17 of section 324, <i>Service Organizations</i>, provide guidance to user auditors on considering the effect of a service organization on a user organization's internal control. Although sections 324.06–.17 do not specifically refer to subservice organizations, when a subservice organization provides services to a service organization, the guidance in these paragraphs should be interpreted to include the subservice organization. For example, in situations where subservice organizations are used, the interaction between the user organization and the service organization described in section 324.06 would be expanded to include the interaction between the user organization, the service organization and the subservice organization.</p>	<p>information that could prevent or detect and correct material misstatements. In this situation, the user auditor may perform tests of the user entity's controls over payroll processing that would provide a basis for the user auditor to conclude that the user entity's controls are operating effectively for the assertions related to payroll transactions.</p>	
<p>.06 Similarly, a service auditor engaged to examine the controls of a service organization and issue a service auditor's report may need to consider functions performed by the subservice organization and the effect of the subservice organization's controls on the service organization.</p>		<p>Not included in the proposed SSAE.</p>
<p>.07 The degree of interaction and the nature and materiality of the transactions processed by the service organization and the subservice organization are the most important factors to consider in determining the significance of the subservice organization's controls to the user organization's internal control. Sections 324.11–.16 describe how a user auditor's assessment of control risk is affected when a user organization uses a service organization. When a subservice organization is involved, the user auditor may need to consider activities at both the service organization and the subservice organization in applying the guidance in these paragraphs.</p>		<p>Not included in the proposed SAS.</p>
<p>.08 Question—How does a user auditor obtain</p>		

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
information about controls at a subservice organization?		
.09 Interpretation—If a user auditor concludes that he or she needs information about the subservice organization to plan the audit or to assess control risk, the user auditor (a) may contact the service organization through the user organization and may contact the subservice organization either through the user organization or the service organization to obtain specific information or (b) may request that a service auditor be engaged to perform procedures that will supply the necessary information. Alternatively, the user auditor may visit the service organization or subservice organization and perform such procedures.		Not included in the proposed SAS.
.10 Question—When a service organization uses a subservice organization, what information about the subservice organization should be included in the service organization's description of controls?		
.11 Interpretation—A service organization's description of controls should include a description of the functions and nature of the processing performed by the subservice organization in sufficient detail for user auditors to understand the significance of the subservice organization's functions to the processing of the user organizations' transactions. Ordinarily, disclosure of the identity of the subservice organization is not required. However, if the service organization determines that the identity of the subservice organization would be relevant to user organizations, the name of the subservice organization may be included in the description. The purpose of the description of the functions and nature of the processing performed by the subservice organization is to alert user organizations and their auditors to the fact that another entity (that is, the subservice organization) is involved in the processing of the	Par. A21, SSAE: If the inclusive method has been used, it is important that the description adequately differentiate between controls at the service organization and controls at the subservice organization. If the carve-out method has been used, it is important that the description identify the functions that are performed by the subservice organization, but need not describe the detailed processing or controls at the subservice organization.	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
user organizations' transactions and to summarize the functions the subservice organization performs.		
.12 When a subservice organization performs services for a service organization, there are two alternative methods of presenting the description of controls. The service organization determines which method will be used.		
a. The Carve-Out Method—The subservice organization's relevant control objectives and controls are excluded from the description and from the scope of the service auditor's engagement. The service organization states in the description that the subservice organization's control objectives and related controls are omitted from the description and that the control objectives in the report include only the objectives the service organization's controls are intended to achieve.	Par. 7, SSAE: Carve-out method. Method of dealing with the services provided by a subservice organization whereby the 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. The description of the service organization's system and the scope of the service auditor's engagement include controls at the service organization for monitoring the effectiveness of controls at the subservice organization, which may include the service organization's review of a service auditor's report on controls at the subservice organization.	
b. The Inclusive Method—The subservice organization's relevant controls are included in the description and in the scope of the engagement. The description should clearly differentiate between controls of the service organization and controls of the subservice organization. The set of control objectives includes all of the objectives a user auditor would expect both the service organization and the subservice organization to achieve. To accomplish this, the service organization should coordinate the preparation and presentation of the description of controls with the subservice organization.	Par. 7, SSAE: Inclusive method. Method of dealing with the services provided by a subservice organization whereby the service organization's description of its 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 included in the scope of the service auditor's engagement. (Ref: par. A2)	The requirement for the service organization to coordinate the preparation and presentation of the description of controls with the subservice organization is not included in the proposed SSAE.
In either method, the service organization includes in its description of controls a description of the functions and nature of the	Par. A21, SSAE: ...If the carve-out method has been used, it is important that the description identify the functions that are performed by the subservice organization, but need not	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
processing performed by the subservice organization, as set forth in paragraph .11.	describe the detailed processing or controls at the subservice organization.	
.13 If the functions and processing performed by the subservice organization are significant to the processing of user organization transactions, and the service organization does not disclose the existence of the subservice organization and the functions it performs, the service auditor may need to issue a qualified or adverse opinion as to the fairness of the presentation of the description of controls.		Not included in the proposed SSAE.
.14 Question—How is the service auditor's report affected by the method of presentation selected?		
.15 Interpretation—If the service organization has adopted the carve-out method, the service auditor should modify the scope paragraph of the service auditor's report to briefly summarize the functions and nature of the processing performed by the subservice organization. This summary ordinarily would be briefer than the information provided by the service organization in its description of the functions and nature of the processing performed by the subservice organization. The service auditor should include a statement in the scope paragraph of the service auditor's report indicating that the description of controls includes only the control objectives and related controls of the service organization; accordingly, the service auditor's examination does not extend to controls at the subservice organization.	<p>Par 57, SSAE: The service auditor's report should include the following elements:</p> <p>c. Identification of the following:</p> <p>(4) If services are performed by a subservice organization, <u>an</u> identification of those services and whether the inclusive method or the carve-out method was used in relation to them. If the carve-out method was used, a statement that the 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. If the inclusive method has been used, a statement that the 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 at or related to the subservice organization</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>.16 An example of the scope paragraph of a service auditor's report using the carve-out method is presented below. Additional or modified report language is shown in boldface italics.</p> <p>Sample Scope Paragraph of a Service Auditor's Report Using the Carve-Out Method</p> <p>Independent Service Auditor's Report To the Board of Directors of Example Trust Company:</p> <p>We have examined the accompanying description of the controls of Example Trust Company applicable to the processing of transactions for users of the Institutional Trust Division. Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of Example Trust Company's controls that may be relevant to a user organization's internal control as it relates to an audit of financial statements; (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily, and user organizations applied the controls contemplated in the design of Example Trust Company's controls; and (3) such controls had been placed in operation as of June 30, 20XX. Example Trust Company uses a computer processing service organization for all of its computerized application processing. The accompanying description includes only those control objectives and related controls of Example Trust Company and does not include control objectives and related controls of the computer processing service organization. Our examination did not extend to controls of the computer processing service organization. The control objectives were specified by the management of Example Trust Company. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.</p>	<p style="text-align: right;">A46.</p> <p style="text-align: center;">Exhibit D, SSAE:</p> <p>Illustrative Report Paragraphs for Service Organizations That Use a Subservice Organization</p> <p>Following are modifications of the illustrative type 2 report in example 1 of exhibit B for use in engagements in which the service organization uses a subservice organization.</p> <p><i>New language is shown in boldface italics; deleted language is shown by strikethrough.</i></p> <p>Example 1: Carve-out method</p> <p><i>Scope</i></p> <p>We have examined XYZ Service Organization's description on pages [bb–cc] of the [type or name of] system made available to customers of the system throughout the period [date] to [date] for processing their transactions and the suitability of the design and operating effectiveness of controls to achieve the related control objectives stated in the description. <i>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.</i></p> <p><i>All other report paragraphs are unchanged.</i></p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>.17 If the service organization has used the inclusive method, the service auditor should perform procedures comparable to those described in section 324.12. Such procedures may include performing tests of the service organization's controls over the activities of the subservice organization or performing procedures at the subservice organization. If the service auditor will be performing procedures at the subservice organization, the service organization should arrange for such procedures. The service auditor should recognize that the subservice organization generally is not the client for the engagement. Accordingly, in these circumstances the service auditor should determine whether it will be possible to obtain the required evidence to support the portion of the opinion covering the subservice organization and whether it will be possible to obtain an appropriate letter of representations regarding the subservice organization's controls.</p>		

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>.18 An example of a service auditor's report using the inclusive method is presented below. Additional or modified report language is shown in boldface italics.</p> <p>Sample Service Auditor's Report Using the Inclusive Method</p> <p>Independent Service Auditor's Report To the Board of Directors of Example Trust Company:</p> <p>We have examined the accompanying description of the controls of Example Trust Company and Computer Processing Service Organization, an independent service organization that provides computer processing services to Example Trust Company, applicable to the processing of transactions for users of the Institutional Trust Division. Our examination included procedures to obtain reasonable assurance about whether (1) the accompanying description presents fairly, in all material respects, the aspects of Example Trust Company's and Computer Processing Service Organization's controls that may be relevant to a user organization's internal control as it relates to an audit of financial statements; (2) the controls included in the description were suitably designed to achieve the control objectives specified in the description, if those controls were complied with satisfactorily, and user organizations applied the controls contemplated in the design of Example Trust Company's controls; and (3) the controls had been placed in operation as of June 30, 20XX. The control objectives were specified by the management of Example Trust Company. Our examination was performed in accordance with standards established by the American Institute of Certified Public Accountants and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.</p>	<p style="text-align: right;">A46. Exhibit D, SSAE:</p> <p>Example 2: Inclusive Method</p> <p><i>Scope</i> We have examined XYZ Service Organization's and ABC Subservice Organization's description on pages [bb–cc] of the [type or name of] system made available to customers of the system throughout the period [date] to [date] for processing their transactions 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 customers, as well as relevant control objectives and controls of ABC Subservice Organization.</p> <p><i>Management's responsibilities</i> Management of XYZ Service Organization and ABC Subservice Organization are responsible for preparing and presenting the description and accompanying assertion at page [aa], including the completeness, accuracy, and method of presentation of the description and assertion, providing the services covered by the description, specifying the control objectives and stating them in the description, selecting the criteria, and designing, implementing, and maintaining controls to achieve the control objectives stated in the description.</p> <p><i>Inherent limitations</i> 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. The description of XYZ Service Organization's [type or name of] system and ABC Subservice Organization's [type or name of] system and information about tests of the operating effectiveness of specific controls covers the period [date] to [date]. Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the controls in existence. The potential effectiveness of specific controls at the XYZ</p>	
<p>In our opinion, the accompanying description of the aforementioned controls presents fairly, in all material respects, the relevant aspects of Example Trust Company's and Computer Processing Service Organization's controls that</p>		

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>4. Responsibilities of Service Organizations and Service Auditors With Respect to Forward-Looking Information in a Service Organization's Description of Controls</p> <p>.35 Question—Section 324.32 requires a service auditor to consider "whether any other information, irrespective of specified control objectives, has come to his or her attention that causes him or her to conclude (a) that design deficiencies exist that could adversely affect the ability to initiate, authorize, record, process, or report financial data to user organizations without error, and (b) that user organizations would not generally be expected to have controls in place to mitigate such design deficiencies." A service auditor performing a service auditor's engagement may become aware that a service organization, whose system is correctly processing data during the period covered by the service auditor's examination, has not performed contingency planning or made adequate provision for disaster recovery, and may not be able to retrieve or process data in future periods. Does section 324.32 require a service auditor to identify, in his or her report, design deficiencies that do not affect processing during the period covered by the service auditor's examination but may represent potential problems in future periods?</p>		<p>The following paragraph was added to the proposed SSAE:</p> <p>60. The service auditor also should modify the report if information, irrespective of specified control objectives, comes to the service auditor's attention that causes him or her to conclude (1) that design deficiencies exist that could adversely affect the ability of the service organization to initiate, authorize, record, process, or report financial data to user organizations without error, and (2) that user organizations would not generally be expected to have controls in place to mitigate such design deficiencies.</p>
<p>.36 Interpretation—No. Section 324.32 addresses design deficiencies that could adversely affect processing during the period covered by the service auditor's examination. Section 324.32 does not apply to design deficiencies that potentially could affect processing in future periods. If the computer programs are correctly processing data during the period covered by the service auditor's examination, and such design deficiencies currently do not affect user organizations' abilities to initiate, authorize, record, process, or report</p>		<p>Not included in the proposed SSAE.</p>

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>financial data, the service auditor would not be required to report such design deficiencies in his or her report, based on the requirements in section 324.32. However, if a service auditor becomes aware of design deficiencies at the service organization that could potentially affect the processing of user organizations' transactions in future periods, the service auditor, in his or her judgment, may choose to communicate this information to the service organization's management and advise management to disclose this information and its plans for correcting the design deficiencies in a section of the service auditor's document titled "Other Information Provided by the Service Organization." fn 2</p>		
<p>.37 If the service organization includes information about the design deficiencies in the section of the document titled "Other Information Provided by the Service Organization," the service auditor should read the information and consider applying by analogy the guidance in section 550, <i>Other Information in Documents Containing Audited Financial Statements</i>. In addition, the service auditor should include a paragraph in his or her report disclaiming an opinion on the information provided by the service organization. The following is an example of such a paragraph.</p> <p>The information in section 4 describing XYZ Service Organization's plans to modify its disaster recovery plan is presented by the Service Organization to provide additional information and is not a part of the Service Organization's description of controls that may be relevant to a user organization's internal control. Such information has not been subjected to the procedures applied in the examination of the description of the controls applicable to the processing of transactions for user organizations and, accordingly, we express no opinion on it.</p>	<p>Par. 46, SSAE: The service auditor should read other information, if any, included in a document containing the 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 that other information.</p> <p>Par. 47, SSAE: 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.</p>	<p>The SSAE addresses "other information" but not other information related to potential problems in future periods.</p>

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>A service auditor also may consider communicating information about the design deficiencies in the section of the service auditor's document titled "Other Information Provided by the Service Auditor."</p>		
<p>5. Statements About the Risk of Projecting Evaluations of the Effectiveness of Controls to Future Periods</p> <p>.38 Question—Section 324.29g and .44l state that a service auditor's report should contain a statement of the inherent limitations of the potential effectiveness of controls at the service organization and of the risk of projecting to future periods any evaluation of the description. Section 324.44l goes on to state that the report also should refer to the risk of projecting to the future "any conclusions about the effectiveness of controls in achieving control objectives." The sample service auditor's reports in section 324.38 and .54 include illustrative paragraphs that illustrate this caveat. The following excerpt is from section 324.54:</p> <p>The description of controls at XYZ Service Organization is as of _____, and information about tests of the operating effectiveness of specific controls covers the period from _____ to _____.</p> <p>Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the controls in existence. The potential effectiveness of specific controls at the Service Organization is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected.</p> <p>Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that changes may alter the validity of such conclusions.</p>		

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i> , vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
<p>The validity of projections to the future about the effectiveness of controls may be affected by changes made to the system and the controls, and also by the failure to make needed changes, for example, changes to accommodate new processing requirements.</p> <p>May a service auditor's report be expanded to describe the risk of projecting to the future conclusions about the effectiveness of controls?</p>		
<p>.39 Interpretation—The sample reports in section 324.38 and .54 may be expanded to describe this risk. The first and second sentences of the illustrative paragraph above address the potential effect of change on the description of controls as of a specified date; accordingly, they do not require modification because new processing requirements would not affect the description as of the specified date. However, the last sentence in the sample report paragraph above could be expanded to describe the risk of projecting an evaluation of the controls to future periods because of changes to the system or controls, or the failure to make needed changes to the system or controls.</p>	<p>Par. 57e, SSAE: The service auditor's report should include the following elements: (Ref: par. A 34)</p> <p>A statement of the inherent limitations of the potential effectiveness of controls at the service organization and of the risk of projecting to the future any evaluation of the description or any conclusions about the effectiveness of controls in achieving the control objectives stated in the description.</p>	
<p>.40 Suggested additions to the paragraph in the illustrative service auditor's reports in section 324.38 and .54 are the following (new language is shown in italics.):</p> <p>The description of controls at XYZ Service Organization is as of _____, and information about tests of the operating effectiveness of specific controls covers the period from _____ to _____.</p> <p>Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the controls in existence. The potential effectiveness of specific controls at the Service Organization is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected.</p>	<p>Following is the wording in the illustrative reports in appendix B of the proposed SSAE</p> <p>Any projection of such information to the future is subject to the risk that, because of change, the description may no longer portray the controls in existence. The potential effectiveness of specific controls at the Service Organization is subject to inherent limitations and, accordingly, errors or fraud may occur and not be detected. Also, the projection of any conclusions based on our findings to future periods is subject to the risk that changes may alter the validity of such conclusions</p>	

Extant AU Section 324, <i>Service Organizations</i> (AICPA, <i>Professional Standards</i>, vol. 1)	Proposed SSAE, <i>Reporting on Controls at a Service Organization</i> and Proposed SAS, <i>Audit Considerations When an Entity Uses a Service Organization</i>	Comments and Explanations
Furthermore, the projection of any conclusions, based on our findings, to future periods is subject to the risk that changes made to the system or controls, or the failure to make needed changes to the system or controls, may alter the validity of such conclusions. [Issue Date: February, 2002.]		