

**CANADIAN STANDARD ON ASSURANCE ENGAGEMENTS
CSAE 3416
reporting on controls at a service organization relevant to user entities' internal control over financial reporting**

Basis for Conclusions

[CSQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements \(May 2022\)](#)

[CSAE 3416, Reporting on Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting \(September 2019\)](#)

[CSAE 3416, Reporting on Controls at a Service Organization \(August 2010\)](#)

(Effective for service auditors' reports for periods ending on or after September 15, 2020)

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Introduction

Scope of this CSAE

1. This Canadian Standard on Assurance Engagements (CSAE) addresses reasonable assurance attestation engagements undertaken by a service auditor to report on controls at organizations that provide services to user entities when those controls are likely to be relevant to user entities' internal control over financial reporting. It complements [CAS 402](#), 1 in that reports prepared in accordance with this CSAE may provide appropriate evidence under CAS 402. (Ref: Para. [A1](#))

Relationship with [CSAE 3000](#), Other Professional Pronouncements, and Other Requirements

2. When performing an attestation engagement within the scope of this CSAE, in addition to complying with this CSAE, the practitioner is required to comply with [CSAE 3000](#). 2 This CSAE supplements, but does not replace, CSAE 3000 and expands on how CSAE 3000 is to be applied in an engagement to report on controls at a service organization.
3. [CSAE 3000](#) is applicable to all attestation engagements that fall within the scope of this CSAE and provides requirements and application material for topics not specifically addressed in this CSAE, including:
 - (a) Ethical requirements;
 - (b) Quality management;
 - (c) Professional skepticism, professional judgment, and assurance skills and techniques;
 - (d) Using the work of a practitioner's expert;
 - (e) Subsequent events; and
 - (f) Documentation.
4. The focus of this CSAE is on controls at service organizations likely to be relevant to user entities' internal control over financial reporting. The guidance herein also may be helpful to a practitioner performing an engagement under [CSAE 3000](#), to report on controls at a service organization:
 - (a) Other than those that are likely to be relevant to user entities' internal control over financial reporting (for example, controls that affect user entities' compliance with specified requirements of laws, regulations, rules, contracts, or grants, or controls that affect user entities' production, or quality control); or (Ref: Para. [A2-A3](#))
 - (b) When management of the service organization does not provide a statement about the suitability of the design of controls because it is not responsible for the design of the controls (for example, when the system has been designed by the user entity or the design is stipulated in a contract between the user entity and the service organization). (Ref: Para. [A4](#))
5. In addition to performing an engagement to report on a service organization's controls, a service auditor may be engaged to:

- (a) Report on a user entity's transactions or balances maintained by a service organization; or
- (b) Perform and report the results of agreed-upon procedures related to the controls of a service organization or to transactions or balances of a user entity maintained by a service organization.

However, these engagements are not addressed in this CSAE.

6. The requirements and application material in this CSAE are based on the premise that management of the service organization (also referred to as management) will provide the service auditor with a written statement that is included in or attached to management's description of the service organization's system, paragraph [15](#) of this CSAE addresses the circumstance in which management refuses to provide such a written statement. [CSAE 3000](#) indicates that when performing an attestation engagement, the practitioner's conclusion may be phrased in terms of:
- (a) The underlying subject matter and the applicable criteria;
 - (b) The subject matter information and the applicable criteria; or
 - (c) A statement made by the appropriate party. 3

For engagements conducted under [CSAE 3416](#), the practitioner's report is required to refer to management's statement. However, the practitioner's conclusion is phrased in terms of the subject matter information (that is, management's description of the service organization's system) and the applicable criteria.

Effective Date

7. This CSAE is effective for service auditors' reports for periods ending on or after September 15, 2020.
- 7A. The issuance of [CSQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements](#), gave rise to conforming amendments in paragraphs [46](#) and [47](#). Paragraphs 46 and 47 are effective for engagements beginning on or after December 15, 2022.

Objectives

8. The objectives of the service auditor are to:
- (a) Obtain reasonable assurance about whether, in all material respects, based on suitable criteria:
 - (i) Management's description of the service organization's system fairly presents the system that was designed and implemented throughout the specified period (or in the case of a type 1 report, as of a specified date);
 - (ii) The controls related to the control objectives stated in management's description of the service organization's system were suitably designed to provide reasonable assurance that the stated control objectives would be achieved if the controls operated effectively throughout the specified period (or in the case of a type 1 report, as of a specified date);
 - (iii) When included in the scope of the engagement, the controls operated effectively to provide reasonable assurance that the control objectives stated in management's description of the service organization's system were achieved throughout the specified period.
 - (b) Express an opinion in a written report about the matters in 8(a) in accordance with the service auditor's findings.

Definitions

9. For purposes of this CSAE, the following terms have the meanings attributed below:
- (a) Carve-out method – Method of addressing the services provided by a subservice organization whereby management's description of the service organization's system identifies the nature of the services performed by the subservice organization and excludes from the description and from the scope of the service auditor's engagement, the subservice organization's relevant control objectives and related controls.
 - (b) Complementary subservice organization controls – Controls that management of the service organization assumes, in the design of the service organization's system, will be implemented by the subservice organization and are necessary to achieve the control objectives stated in management's description of the service organization's system.
 - (c) Complementary user entity controls – Controls that management of the service organization assumes, in the design of the service organization's system, will be implemented by user entities and are necessary to achieve the control objectives stated in management's description of the service organization's system.
 - (d) Control objectives – The aim or purpose of specified controls at the service organization. Control objectives address the risks that controls are intended to mitigate.
 - (e) Controls at a service organization – The policies and procedures at a service organization likely to be relevant to user entities' internal control over financial reporting. These policies and procedures are designed, implemented, and documented by the service organization to provide reasonable assurance about the achievement of the control objectives relevant to the services covered by the service auditor's report. (Ref: Para. [A5](#))
 - (f) Inclusive method – Method of addressing the services provided by a subservice organization whereby management's description of the service organization's system includes a description of the nature of the

- services provided by the subservice organization as well as the subservice organization's relevant control objectives and related controls.
- (g) Management's description of a service organization's system and a service auditor's report on that description and on the suitability of the design of controls (referred to in this CSAE as a *type 1 report*) – A report that comprises the following:
- (i) Management's description of the service organization's system;
 - (ii) A written statement by management of the service organization about whether, based on the criteria:
 - a. Management's description of the service organization's system fairly presents the service organization's system that was designed and implemented as of a specified date; and
 - b. The controls related to the control objectives stated in management's description of the service organization's system were suitably designed to achieve those control objectives as of the specified date; and
 - (iii) A service auditor's report that expresses an opinion on the matters in (ii)a.-(ii)b.
- (h) Management's description of a service organization's system and a service auditor's report on that description and on the suitability of the design and operating effectiveness of controls (referred to in this CSAE as a *type 2 report*) – A report that comprises the following:
- (i) Management's description of the service organization's system;
 - (ii) A written statement by management of the service organization about whether, based on the criteria:
 - a. Management's description of the service organization's system fairly presents the service organization's system that was designed and implemented throughout the specified period;
 - b. The controls related to the control objectives stated in management's description of the service organization's system were suitably designed throughout the specified period to achieve those control objectives; and
 - c. The controls related to the control objectives stated in management's description of the service organization's system operated effectively throughout the specified period to achieve those control objectives; and
 - (iii) A service auditor's report that:
 - a. Expresses an opinion on the matters in (ii)a.-(ii)c.; and
 - b. Includes a description of the tests of controls and the results thereof.
- (i) Service auditor – A practitioner who reports on controls at a service organization.
- (j) Service organization – An organization or segment of an organization that provides services to user entities that are likely to be relevant to those user entities' internal control over financial reporting.
- (k) Service organization's statement – A written statement about the matters referred to in part (ii) of the definition of "Management's description of a service organization's system and a service auditor's report on that description and on the suitability of the design and operating effectiveness of controls," for a type 2 report; and, for a type 1 report, the matters referred to in part (ii) of the definition of "Management's description of a service organization's system and a service auditor's report on that description and on the suitability of the design of controls."
- (l) Service organization's system – The policies and procedures designed, implemented, and documented, by management of the service organization to provide user entities with the services covered by the service auditor's report. Management's description of the service organization's system identifies the services covered, the period to which the description relates (or in the case of a type 1 report, the date to which the description relates), the control objectives specified by management or an outside party, the party specifying the control objectives (if not specified by management), and the related controls. (Ref: Para. [A6](#))
- (m) Subservice organization – A service organization used by another service organization to perform some of the services provided to user entities that are likely to be relevant to those user entities' internal control over financial reporting. (Ref: Para. [A7](#))
- (n) Test of controls – A procedure designed to evaluate the operating effectiveness of controls in achieving the control objectives stated in management's description of the service organization's system.
- (o) Type 1 report – See "Management's description of a service organization's system and a service auditor's report on that description and on the suitability of the design of controls."
- (p) Type 2 report – See "Management's description of a service organization's system and a service auditor's report on that description and on the suitability of the design and operating effectiveness of controls."
- (q) User auditor – An auditor who audits and reports on the financial statements of a user entity.
- (r) User entity – An entity that uses a service organization for which controls at the service organization are likely to be relevant to that entity's internal control over financial reporting.

Requirements

CSAE 3000

10. The service auditor shall not represent compliance with this CSAE unless the service auditor has complied with the requirements of this CSAE and [CSAE 3000](#).

Management and Those Charged with Governance

11. When this CSAE requires the service auditor to inquire of, request representations from, communicate with, or otherwise interact with management of the service organization, the service auditor shall determine the appropriate person(s) within the service organization's management or governance structure with whom to interact. This shall include consideration of which person(s) have the appropriate responsibilities for and knowledge of the matters concerned. (Ref: Para. [A8](#)-[A9](#))

Acceptance and Continuance

12. A service auditor shall accept or continue an engagement to report on controls at a service organization pursuant to this CSAE only if the preconditions for an attestation engagement identified in [CSAE 3000](#) 4 and the following conditions are met: (Ref: Para. [A10](#)-[A16](#))
 - (a) The service auditor's preliminary knowledge of the engagement circumstances indicates that the scope of the engagement and management's description of the service organization's system will not be so limited that they are unlikely to be useful to user entities and their auditors.
 - (b) Management acknowledges and accepts its responsibility for the following:
 - (i) Preparing its description of the service organization's system and its statement, including the completeness, accuracy, and method of presentation of the description and statement; (Ref: Para. [A12](#))
 - (ii) Having a reasonable basis for its statement; (Ref: Para. [A13](#))
 - (iii) Selecting the criteria to be used and stating them in the statement;
 - (iv) Specifying the control objectives, stating them in the description of the service organization's system, and, if the control objectives are specified by law, regulation, or another party (for example, a user group or a professional body), identifying in the description the party specifying the control objectives; (Ref: Para. [A14](#))
 - (v) Identifying the risks that threaten the achievement of the control objectives stated in the description and designing, implementing, and documenting controls that are suitably designed and operating effectively to provide reasonable assurance that the control objectives stated in the description of the service organization's system will be achieved; and (Ref: Para. [A15](#))
 - (vi) Providing a written statement that accompanies management's description of the service organization's system, both of which will be provided to user entities. (Ref: Para. [A16](#))

13. When the inclusive method is used the service auditor shall apply the requirements in [CSAE 3000](#) and this CSAE to the services provided by the subservice organization, as applicable, including the requirement to obtain management of the service organization's acknowledgment and acceptance of responsibility for the matters in paragraph [12\(b\)](#) of this CSAE as they relate to the subservice organization. (Ref: Para. [A17](#)-[A18](#))

Request to Change the Scope of the Engagement

14. As required by [CSAE 3000](#), 5 if management requests a change in the scope of the engagement before the completion of the engagement, the service auditor shall not agree to a change in terms of the engagement when no reasonable justification for doing so exists. (Ref: Para. [A19](#)-[A20](#) and [A61](#))

Requesting a Written Statement (Ref: Para. [A21](#))

15. The practitioner shall request from management of the service organization a written statement. If management refuses to provide a written statement, the service auditor shall not circumvent the requirement to obtain a statement by performing a service auditor's engagement under [CSAE 3000](#) or [CSAE 3001](#), and the service auditor shall withdraw from the engagement when withdrawal is possible under applicable law or regulation. If law or regulation does not allow the service auditor to withdraw from the engagement, the service auditor shall disclaim an opinion.

Determining the Suitability of Criteria

16. As required by [CSAE 3000](#), the service auditor shall determine whether management has used suitable criteria in: (Ref: Para. [A23](#)-[A24](#))
 - (a) Preparing its description of the service organization's system;
 - (b) Evaluating whether controls were suitably designed to achieve the control objectives stated in the description; and
 - (c) Evaluating whether controls operated effectively throughout the specified period to achieve the control objectives stated in the description of the service organization's system, in the case of a type 2 report.
17. In determining the suitability of the criteria to evaluate whether management's description of the service organization's system is fairly presented, the service auditor shall determine if the criteria include, at a minimum:

- (a) Whether management's description of the service organization's system presents how the service organization's system was designed and implemented, including the following information about the service organization's system, if applicable:
 - (i) The types of services provided including, as appropriate, the classes of transactions processed;
 - (ii) The procedures, within both automated and manual systems, by which services are provided, including, as appropriate, procedures by which transactions are initiated, authorized, recorded, processed, corrected as necessary, and transferred to the reports and other information prepared for user entities;
 - (iii) The information used in the performance of the procedures, including, if applicable, related accounting records, whether electronic or manual, and supporting information involved in initiating, authorizing, recording, processing, and reporting transactions. This includes the correction of incorrect information and how information is transferred to the reports and other information prepared for user entities;
 - (iv) How the service organization's system captures and addresses significant events and conditions other than transactions;
 - (v) The process used to prepare reports and other information for user entities;
 - (vi) Services performed by a subservice organization, if any, including whether the carve-out method or the inclusive method has been used in relation to them; (Ref: Para. [A35](#))
 - (vii) The specified control objectives and controls designed to achieve those objectives, including, as applicable, complementary user entity controls and complementary subservice organization controls assumed in the design of the service organization's controls; and
 - (viii) Other aspects of the service organization's control environment, risk assessment process, information and communications (including the related business processes), control activities, and monitoring activities that are relevant to the services provided; (Ref: Para. [A13](#) and [A25](#))
 - (b) In the case of a type 2 report, whether management's description of the service organization's system includes relevant details of changes to the service organization's system during the period covered by the description; and (Ref: Para. [A48](#))
 - (c) Whether management's description of the service organization's system does not omit or distort information relevant to the service organization's system, while acknowledging that management's description of the service organization's system is prepared to meet the common needs of a broad range of user entities and their user auditors, and may not, therefore, include every aspect of the service organization's system that each individual user entity and its user auditor may consider important in its own particular environment.
18. In determining the suitability of the criteria to evaluate whether the controls are suitably designed, the service auditor shall determine if the criteria include, at a minimum, whether:
- (a) The risks that threaten the achievement of the control objectives stated in management's description of the service organization's system have been identified by management; and
 - (b) The controls identified in management's description of the service organization's system would, if operating effectively, provide reasonable assurance that those risks would not prevent the control objectives stated in the description from being achieved.
19. In determining the suitability of the criteria to evaluate whether controls operated effectively to provide reasonable assurance that the control objectives stated in management's description of the service organization's system were achieved, the service auditor shall determine if the criteria include, at a minimum, whether the controls were consistently applied as designed throughout the specified period, including whether manual controls were applied by individuals who have the appropriate competence and authority.
20. As stated in paragraph [6](#) of this CSAE, a practitioner is required to request from the responsible party a written statement about the measurement or evaluation of the underlying subject matter against the criteria. The practitioner shall determine that management's statement addresses all the criteria management used to evaluate the fairness of the presentation of the description, the suitability of the design of the controls, and in a type 2 engagement, the operating effectiveness of the controls. (Ref: Para. [A21](#)-[A22](#))

Materiality

21. The service auditor's consideration of materiality shall include the fair presentation of management's description of the service organization's system, the suitability of the design of controls to achieve the related control objectives stated in the description and, in the case of a type 2 report, the operating effectiveness of the controls to achieve the related control objectives stated in the description. (Ref: Para. [A26](#)-[A28](#))

Obtaining an Understanding of the Service Organization's System and Assessing the Risk of Material Misstatement

22. The service auditor shall obtain an understanding of the service organization's system, including controls that are included in the scope of the engagement. That understanding shall include the service organization's processes used to: (Ref: Para. [A29](#)-[A31](#))
- (a) Prepare the description of the service organization's system, including the determination of control objectives;
 - (b) Identify controls designed to achieve the control objectives;

- (c) Assess the suitability of the design of the controls; and
 - (d) In a type 2 report, assess the operating effectiveness of controls.
23. If the service organization has an internal audit function, part of the service auditor's understanding of the service organization's system shall include the following:
- (a) The nature of the internal audit function's responsibilities and how the internal audit function fits in the service organization's organizational structure; and
 - (b) The activities performed, or to be performed, by the internal audit function as it relates to the service organization.
24. As required by [CSAE 3000](#), 6 the service auditor shall identify the risks of material misstatement. (Ref: Para. [A32](#)-[A33](#))
25. The service auditor shall read the reports of the internal audit function and regulatory examinations that relate to the services provided to user entities and the scope of the engagement, if any, to obtain an understanding of the nature and extent of the procedures performed and the related findings. The findings shall be taken into consideration as part of the risk assessment and in determining the nature, timing and extent of the tests.

Responding to Assessed Risks and Further Procedures

26. As required by paragraphs [27](#)-[45](#) of this CSAE, the service auditor shall:
- (a) Design and implement overall responses to address the assessed risks of material misstatement in the subject matter information; and
 - (b) Design and perform further procedures whose nature, timing and extent are based on, and responsive to, the assessed risks of material misstatement.

Obtaining Evidence Regarding Management's Description of the Service Organization's System

27. The service auditor shall obtain and read management's description of the service organization's system and shall evaluate whether those aspects of the description that are included in the scope of the engagement are presented fairly, in all material respects, based on the criteria in management's statement, including whether: (Ref: Para. [A26](#)-[A27](#) and [A34](#)-[A38](#))
- (a) The control objectives stated in management's description of the service organization's system are reasonable in the circumstances;
 - (b) Controls identified in management's description of the service organization's system were implemented;
 - (c) Complementary user entity controls and complementary subservice organization controls, if any, are adequately described; and
 - (d) Services performed by a subservice organization, if any, are adequately described, including whether the carve-out method or the inclusive method has been used in relation to them.
28. The service auditor shall determine through inquiries made in combination with other procedures whether the service organization's system has been implemented. (Ref: Para. [A38](#))

Obtaining Evidence Regarding the Design of Controls

29. The service auditor shall determine whether the controls that management identified in its description of the service organization's system as the controls that achieve the control objectives were suitably designed to achieve those control objectives by: (Ref: Para. [A26](#)-[A27](#), [A34](#) and [A39](#)-[A43](#))
- (a) Obtaining an understanding of management's process for identifying and evaluating the risks that threaten the achievement of the control objectives and assessing the completeness and accuracy of management's identification of those risks;
 - (b) Evaluating the linkage of the controls identified in management's description of the service organization's system with those risks, including risks arising from each of the described classes of transactions and risks that information technology poses to the user entity's internal control over financial reporting; and
 - (c) Determining that the controls have been implemented.

Obtaining Evidence Regarding the Operating Effectiveness of Controls

Assessing Operating Effectiveness

30. When performing a type 2 engagement, the service auditor shall test those controls that management has identified in its description of the service organization's system as the controls that achieve the control objectives and shall assess the operating effectiveness of those controls throughout the period. Evidence obtained in prior engagements about the satisfactory operation of controls in prior periods does not provide a basis for a reduction in testing, even if it is supplemented with evidence obtained during the current period. (Ref: Para. [A26](#)-[A28](#), [A34](#) and [A44](#)-[A49](#))
31. When performing a type 2 engagement, the service auditor shall obtain an understanding of changes in the service organization's system that were implemented during the period covered by the service auditor's report. If the service auditor believes the changes would be considered significant by user entities and their auditors, the service auditor shall determine whether those changes are included in management's description of the service organization's system. If such changes are not included in the description, the service auditor shall describe the changes in the service auditor's report

and determine the effect on the service auditor's report. If superseded controls are relevant to the achievement of the control objectives stated in the description, the service auditor shall, if possible, test the superseded controls before the change. If the service auditor cannot test superseded controls relevant to the achievement of the control objectives stated in the description, the service auditor shall determine the effect on the service auditor's report. (Ref: Para. [A44-A45](#))

Evaluating the Reliability of Information Produced by the Service Organization

32. When using information produced by the service organization, the service auditor shall evaluate whether the information is sufficiently reliable for the service auditor's purposes by obtaining evidence about its accuracy and completeness and evaluating whether the information is sufficiently precise and detailed for the service auditor's purposes. (Ref: Para. [A50-A52](#))
33. When designing and performing tests of controls, the service auditor shall:
 - (a) Perform other procedures such as inspection, observation, or reperformance in combination with inquiry to obtain evidence about the following:
 - (i) How the control was applied;
 - (ii) The consistency with which the control was applied; and
 - (iii) By whom or by what means the control was applied;
 - (b) Determine whether the controls to be tested depend on other controls, and if so, whether it is necessary to obtain evidence supporting the operating effectiveness of those other controls; and
 - (c) Determine an effective method for selecting the items to be tested to meet the objectives of the procedure. (Ref: Para. [A53-A54](#))

Sampling

34. When determining the extent of tests of controls and whether sampling is appropriate, the service auditor shall 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 is appropriate, the service auditor shall:
 - (a) Consider the purpose of the procedure;
 - (b) Determine a sample size sufficient to reduce sampling risk to an acceptably low level;
 - (c) Select items for the sample in such a way that each sampling unit in the population has a chance of selection;
 - (d) If a designed procedure is not applicable to a selected item, perform the procedure on a replacement item; and
 - (e) If unable to apply the designed procedures, or suitable alternative procedures, to a selected item, treat that item as a deviation. (Ref: Para. [A53-A54](#))

Nature and Cause of Deviations

35. The service auditor shall investigate the nature and cause of any deviations identified, and shall determine whether:
 - (a) Identified deviations are within the expected rate of deviation and are acceptable. If so, the testing that has been performed provides an appropriate basis for concluding that the control operated effectively throughout the specified period;
 - (b) Additional testing of the control or of other controls is necessary to reach a conclusion about whether the controls related to the control objectives stated in management's description of the service organization's system operated effectively throughout the specified period; or
 - (c) The testing that has been performed provides an appropriate basis for concluding that the control did not operate effectively throughout the specified period.
36. If, as a result of performing the procedures in paragraph [35](#) the service auditor becomes aware that any identified deviations have resulted from fraud by service organization personnel, the service auditor shall assess the risk that management's description of the service organization's system is not fairly presented, the controls are not suitably designed, and in a type 2 engagement, the controls are not operating effectively. (Ref: Para. [A34](#))
37. If the service auditor becomes aware of identified or suspected instances of non-compliance with laws and regulations, fraud or uncorrected misstatements attributable to management or other service organization personnel that are not clearly trivial and that may affect one or more user entities, the service auditor shall determine the effect of such instances on management's statement, management's description of the service organization's system, the achievement of the control objectives, and the service auditor's report. (Ref: Para. [A55](#))
38. In performing subsequent events procedures as required by [CSAE 3000](#), 7 if the service auditor becomes aware of an event that is of such a nature and significance that its disclosure is necessary to prevent users of a type 1 or type 2 report from being misled, and information about that event is not disclosed by management in its description, the service auditor shall disclose such event in the service auditor's report.

Using the Work of the Internal Audit Function (Ref: Para. [A56](#))

Using the Work of the Internal Audit Function

39. In addition to the requirements when using the work of an internal audit function required by [CSAE 3000](#), 8 the service auditor shall perform sufficient procedures on the work of the internal audit function that the service auditor plans to use to determine its adequacy for purposes of the engagement, including evaluating whether:
- (a) The work of the internal audit function has been properly planned, performed, supervised, reviewed and documented;
 - (b) Sufficient appropriate evidence was obtained to enable the internal audit function to draw reasonable conclusions; and
 - (c) Conclusions reached are appropriate in the circumstances and the reports prepared by the internal audit function are consistent with the results of the work performed.

Direct Assistance

40. When the service auditor uses members of the service organization's internal audit function to provide direct assistance, the service auditor shall evaluate the knowledge, competence and objectivity of such members in relation to the matters subject to the service auditor's engagement. The service auditor shall adequately plan and properly supervise the work of such internal audit members.

Written Representations

41. In addition to the written representations from management required by [CSAE 3000](#), 9 the service auditor shall request management to provide written representations in the form of a letter addressed to the service auditor, that: (Ref: Para. [A57](#)-[A61](#))
- (a) Reaffirm its statement included in or attached to the description of the service organization's system;
 - (b) It has disclosed to the service auditor any of the following of which it is aware:
 - (i) Instances of identified or suspected non-compliance with laws and regulations or uncorrected misstatements attributable to the service organization that may affect one or more user entities;
 - (ii) Knowledge of any actual, suspected, or alleged fraud by management or the service organization's employees, that could adversely affect the fairness of presentation of management's description of the service organization's system or the completeness or achievement of the control objectives stated in the description;
 - (iii) Design deficiencies in controls;
 - (iv) Instances when controls have not operated as described; and
 - (v) Any events subsequent to the period covered by management's description of the service organization's system up to the date of the service auditor's report that could have a significant effect on management's statement.
42. If a service organization uses a subservice organization, and management's description of the service organization's system uses the inclusive method, the service auditor shall also obtain the written representations identified in [CSAE 3000](#) 10 and paragraph [41](#) of this CSAE from management of the subservice organization.
43. The written representations shall be in the form of a representation letter addressed to the service auditor and shall be as of the same date as the date of the service auditor's report.
44. In a type 1 or type 2 engagement, the practitioner shall request from the responsible party (in this case, management of the service organization), the written representations required by [CSAE 3000](#) 11 and paragraph [41](#) of this CSAE, even if the engaging party is not the responsible party. The refusal by management of the service organization (or by management of a subservice organization that is being presented using the inclusive method) to furnish the written representations required by [CSAE 3000](#) 12 and paragraph [41](#) of this CSAE constitutes a limitation on the scope of the engagement sufficient to preclude an unmodified opinion and may be sufficient to cause the service auditor to withdraw from the engagement when withdrawal is possible under application law or regulation. (Ref: Para. [A57](#)-[A61](#))

Other Information

45. [CSAE 3000](#) 13 contains requirements for situations in which prior to or after the release of the service auditor's report, the service auditor is willing to permit the inclusion of the service auditor's report in a document that contains the subject matter information on which the service auditor reported and other information. (Ref: Para. [A62](#))

Content of the Service Auditor's Report

46. A service auditor's type 2 report shall include the following: (Ref: Para. [A63](#)-[A64](#))
- (a) A title that includes the word "independent";
 - (b) An appropriate addressee as required by the circumstances of the engagement;
 - (c) Identification of the following:
 - (i) Management's description of the service organization's system and the function performed by the system, and the period to which the description relates;

- (ii) The criteria identified in management's statement against which the fairness of the presentation of the description and the suitability of the design and operating effectiveness of the controls to achieve the related control objective stated were evaluated;
- (iii) Any information included in a document containing the service auditor's report that is not covered by the service auditor's report; and (Ref: Para. [A62](#))
- (iv) Any services performed by a subservice organization and whether the carve-out method or the inclusive method was used in relation to them. Depending on which method is used, the following shall be included:
 - a. If the carve-out method was used, a statement indicating that: (Ref: Para. [A65](#))
 - i. Management's description of the service organization's system excludes the control objectives and related controls at relevant subservice organizations;
 - ii. Certain control objectives specified by the service organization can be achieved only if complementary subservice organization controls assumed in the design of the service organization's controls are suitably designed and operating effectively; and
 - iii. The service auditor's procedures do not extend to such complementary subservice organization controls; or
 - b. If the inclusive method was used, a statement that management's description of the service organization's system includes the subservice organization's specified control objectives and related controls, and that the service auditor's procedures included procedures related to the subservice organization;
- (d) A statement that the controls and control objectives included in the description are those that management believes are likely to be relevant to user entities' internal control over financial reporting, and the description does not include those aspects of the system that are not likely to be relevant to user entities' internal control over financial reporting;
- (e) If management's description of the service organization's system refers to the need for complementary user entity controls, a statement that the service auditor has not evaluated the suitability of the design or operating effectiveness of complementary user entity controls, and that the control objectives stated in the description can be achieved only if complementary user entity controls are suitably designed and operating effectively, along with the controls at the service organization;
- (f) A reference to management's statement and a statement that management is responsible for:
 - (i) Preparing the description of the service organization's system and the statement, including the completeness, accuracy, and method of presentation of the description and statement;
 - (ii) Providing the services covered by the description of the service organization's system;
 - (iii) Specifying the control objectives and stating them in the description of the service organization's system;
 - (iv) Identifying the risks that threaten the achievement of the control objectives;
 - (v) Selecting the criteria; and
 - (vi) Designing, implementing, and documenting controls that are suitably designed and operating effectively to achieve the related control objectives stated in the description of the service organization's system;
- (g) A statement that the service auditor is responsible for expressing an opinion on the fairness of the presentation of management's description of the service organization's system and on the suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the description;
- (h) A statement that the firm of which the practitioner is a member applies [CSQM 1](#), 14 or other professional requirements, or requirements in law or regulation, that are at least as demanding as CSQM 1. If a practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as CSQM 1;
- (i) A statement that the practitioner complies with the independence and other ethical requirements of relevant rules of professional conduct / code of ethics applicable to the practice of public accounting and related to assurance engagements, issued by various professional accounting bodies, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding;
- (j) A statement that:
 - (i) The engagement was performed in accordance with [CSAE 3416, Reporting on Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting](#);
 - (ii) This standard requires the service auditor to plan and perform the engagement to obtain reasonable assurance about whether, in all material respects, based on the criteria in management's statement, management's description of the service organization's system is fairly presented, and the controls are

- suitably designed and operating effectively throughout the specified period to achieve the related control objectives; and
 - (iii) The service auditor believes the evidence obtained is sufficient and appropriate to provide a reasonable basis for the service auditor's opinion;
- (k) A statement that a reasonable assurance engagement to report on management's description of a service organization's system and the suitability of the design and operating effectiveness of the service organization's controls to achieve the related control objectives stated in the description involves:
 - (i) Performing procedures to obtain evidence about the fairness of the presentation of the description and the suitability of the design and operating effectiveness of those controls to achieve the related control objectives stated in the description based on the criteria in management's statement;
 - (ii) Assessing the risks that management's description of the service organization's system is not fairly presented and that the controls were not suitably designed or operating effectively to achieve the related control objectives;
 - (iii) Testing the operating effectiveness of those controls that management considers necessary to provide reasonable assurance that the related control objectives stated in management's description of the service organization's system were achieved; and
 - (iv) Evaluating the overall presentation of management's description of the service organization's system and suitability of the control objectives stated in the description and suitability of the criteria specified by the service organization in its statement;
- (l) A description of the inherent limitations of controls, including that of projecting to future periods any evaluation of the fairness of the presentation of management's description of the service organization's system or conclusions about the suitability of the design or operating effectiveness of controls to achieve the related control objectives is subject to the risk that controls at the service organization may become ineffective;
- (m) The service auditor's opinion on whether, in all material respects, based on the criteria described in management's statement:
 - (i) Management's description of the service organization's system fairly presents the service organization's system that was designed and implemented throughout the specified period;
 - (ii) The controls related to the control objectives stated in management's description of the service organization's system were suitably designed to provide reasonable assurance that those control objectives would be achieved if the controls operated effectively throughout the specified period; and
 - (iii) The controls operated effectively to provide reasonable assurance that the control objectives stated in management's description of the service organization's system were achieved, throughout the specified period:
 - a. If the application of complementary user entity controls is necessary to achieve the related control objectives stated in management's description of the service organization's system, a statement to that effect; and
 - b. If the application of complementary subservice organization controls is necessary to achieve the related control objectives stated in management's description of the service organization's system, a statement to that effect;
- (n) A reference to a description of the service auditor's tests of controls and the results thereof, that includes: (Ref: Para. [A66-A70](#))
 - (i) An identification of the controls that were tested;
 - (ii) Whether the items tested represent all or a selection of the items in the population;
 - (iii) The nature of the tests in sufficient detail to enable user auditors to determine the effect of such tests on their risk assessments;
 - (iv) Any identified deviations in the operation of controls included in the description, the extent of testing performed by the service auditor that led to the identification of the deviations (including the number of items tested), and the number and nature of the deviations noted (even if, on the basis of tests performed, the service auditor concludes that the related control objective was achieved); and (Ref: Para. [A67](#))
 - (v) If the work of the internal audit function has been used in tests of controls to obtain evidence, a description of the internal auditor's work and of the service auditor's procedures with respect to that work; (Ref: Para. [A68-A70](#))
- (o) An alert, in a separate paragraph, that restricts the use of the report. The alert shall: (Ref: Para. [A71-A75](#))
 - (i) State that the report, including the description of tests of controls and results thereof is intended solely for the information and use of management of the service organization, user entities of the service organization's system during some or all of the period covered by the report, and the auditors who audit and report on such user entities' financial statements or internal control over financial reporting; and

- (ii) State that the report is not intended to be, and should not be, used by anyone other than the specified parties;
 - (p) The practitioner's signature;
 - (q) The date of the report. The report shall be dated no earlier than the date on which:
 - (i) The service auditor has obtained sufficient appropriate evidence on which to base the service auditor's opinion, including evidence that:
 - a. Management's description of the service organization system has been prepared;
 - b. Management has provided a written statement; and
 - c. The engagement documentation has been reviewed; and
 - (ii) When an engagement quality review is required in accordance with [CSQM 1](#) or the firm's policies or procedures, the engagement quality review is complete.
 - (r) The name of the service auditor and the location in the jurisdiction where the service auditor practices.
47. A service auditor's type 1 report shall include the following: (Ref: Para. [A63-A75](#))
- (a) A title that includes the word "independent";
 - (b) An appropriate addressee as required by the circumstances of the engagement;
 - (c) Identification of the following:
 - (i) Management's description of the service organization's system, the function performed by the system and the specified date to which the description relates;
 - (ii) The criteria identified in management's statement against which the fairness of the presentation of the description and the suitability of the design of the controls to achieve the related control objectives stated in the description were evaluated;
 - (iii) Any information included in a document containing the service auditor report that is not covered by the service auditor's report; and (Ref: Para. [A62](#))
 - (iv) Any services performed by a subservice organization and whether the carve-out method or the inclusive method was used in relation to them. Depending on which method is used, the following shall be included:
 - a. If the carve-out method was used, a statement indicating that: (Ref: Para. [A65](#))
 - i. management's description of the service organization's system excludes the control objectives and related controls of the relevant subservice organizations;
 - ii. Certain control objectives specified by the service organization can be achieved only if complementary subservice organization controls assumed in the design of the service organization's controls are suitably designed and operating effectively; and
 - iii. The service auditor's procedures do not extend to such complementary subservice organization controls; or
 - b. If the inclusive method was used, a statement that management's description of the service organization's system includes the subservice organization's specified control objectives and related controls, and that the service auditor's procedures included procedures related to the subservice organization;
 - (d) A statement that the controls and control objectives included in the description are those that management believes are likely to be relevant to user entities' internal control over financial reporting, and the description does not include those aspects of the system that are not likely to be relevant to user entities' internal control over financial reporting;
 - (e) If management's description of the service organization's system refers to the need for complementary user entity controls, a statement that the service auditor has not evaluated the suitability of the design or operating effectiveness of complementary user entity controls, and that the control objectives stated in the description can be achieved only if complementary user entity controls are suitably designed and operating effectively, along with the controls at the service organization;
 - (f) A reference to management's statement and a statement that management is responsible for:
 - (i) Preparing the description of the service organization's system and the statement, including the completeness, accuracy, and method of presentation of the description and statement;
 - (ii) Providing the services covered by the description of the service organization's system;
 - (iii) Specifying the control objectives, and stating them in the description of the service organization's system;
 - (iv) Identifying the risks that threaten the achievement of the control objectives;
 - (v) Selecting the criteria; and
 - (vi) Designing, implementing, and documenting controls that are suitably designed and operating effectively to achieve the related control objectives stated in the description of the service organization's system;

- (g) A statement that the service auditor is responsible for expressing an opinion on the fairness of the presentation of management's description of the service organization's system and on the suitability of the design of the controls to achieve the related control objectives stated in the description;
- (h) A statement that the firm of which the practitioner is a member applies [CSQM 1](#), or other professional requirements, or requirements in law or regulation, that are at least as demanding as CSQM 1. If a practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as CSQM 1;
- (i) A statement that the practitioner complies with the independence and other ethical requirements of relevant rules of professional conduct / code of ethics applicable to the practice of public accounting and related to assurance engagements, issued by various professional accounting bodies, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding;
- (j) A statement that:
 - (i) The engagement was performed in accordance with [CSAE 3416, Reporting on Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting](#);
 - (ii) This standard requires the service auditor to plan and perform the engagement to obtain reasonable assurance about whether, in all material respects, based on the criteria in management's statement, management's description of the service organization's system is fairly presented, and the controls are suitably designed as of the specified date to achieve the related control objectives; and
 - (iii) The service auditor believes the evidence obtained is sufficient and appropriate to provide a reasonable basis for the service auditor's opinion;
- (k) A statement that a reasonable assurance engagement to report on management's description of a service organization's system and the suitability of the design of the service organization's controls to achieve the related control objectives stated in the description involves:
 - (i) Performing procedures to obtain evidence about the fairness of the presentation of the description and the suitability of the design of those controls to achieve the related control objectives stated in the description, based on the criteria in management's statement;
 - (ii) Assessing the risks that management's description of the service organization's system is not fairly presented and that the controls were not suitably designed to achieve the related control objectives; and
 - (iii) Evaluating the overall presentation of management's description of the service organization's system and suitability of the control objectives stated in the description, and the suitability of the criteria specified by the service organization in its statement;
- (l) A description of the inherent limitations of controls, including that projecting to the future any evaluation of the fairness of the presentation of management's description of the service organization's system or conclusions about the suitability of the design of the controls to achieve the related control objectives is subject to the risk that controls at a service organization may become ineffective;
- (m) A statement that the service auditor has not performed any procedures regarding the operating effectiveness of controls and, therefore, expresses no opinion thereon;
- (n) The service auditor's opinion on whether, in all material respects, based on the criteria described in management's statement:
 - (i) Management's description of the service organization's system fairly presents the service organization's system that was designed and implemented as of the specified date;
 - (ii) The controls related to the control objectives stated in management's description of the service organization's system were suitably designed to provide reasonable assurance that those control objectives would be achieved if the controls operated effectively as of the specified date;
 - (iii) If the application of complementary user entity controls is necessary to achieve the related control objectives stated in management's description of the service organization's system, a statement to that effect; and
 - (iv) If the application of complementary subservice organization controls is necessary to achieve the related control objectives stated in management's description of the service organization's system, a statement to that effect;
- (o) An alert, in a separate paragraph, that restricts the use of the report. The alert shall: (Ref: Para. [A71-A75](#))
 - (i) State that the report is intended solely for the information and use of management of the service organization, user entities of the service organization's system as of the specified date, and the auditors who audit and report on such user entities' financial statements or internal control over financial reporting; and

- (ii) State that the report is not intended to be, and should not be, used by anyone other than the specified parties;
- (p) The practitioner's signature;
- (q) The date of the report. The report shall be dated no earlier than the date on which:
 - (i) The service auditor has obtained sufficient appropriate evidence on which to base the service auditor's opinion, including evidence that:
 - a. Management's description of the service organization system has been prepared;
 - b. Management has provided a written statement; and
 - c. The engagement documentation has been reviewed; and
 - (ii) When an engagement quality review is required in accordance with [CSQM 1](#) or the firm's policies or procedures, the engagement quality review is complete.
- (r) The name of the service auditor and the location in the jurisdiction where the service auditor practices.

Modified Opinions

48. The service auditor's opinion shall be modified, and the service auditor's report shall include a section with a clear description of all the reasons for the modification, if the service auditor concludes that, based on the criteria in management's statement:
 - (a) Management's description of the service organization's system is not fairly presented, in all material respects;
 - (b) The controls are not suitably designed to provide reasonable assurance that the control objectives stated in management's description of the service organization's system would be achieved if the controls operated effectively, in all material respects;
 - (c) In the case of a type 2 report, the controls did not operate effectively throughout the specified period to achieve the related control objectives stated in management's description of the service organization's system, in all material respects; or
 - (d) The service auditor is unable to obtain sufficient appropriate evidence.
49. If the service auditor plans to disclaim an opinion because of the inability to obtain sufficient appropriate evidence, and, based on the limited procedures performed, has concluded that, in all material respects, based on the criteria in management's statement:
 - (a) Certain aspects of management's description of the service organization's system are not fairly presented;
 - (b) Certain controls were not suitably designed to provide reasonable assurance that the control objectives stated in management's description of the service organization's system would be achieved if the controls operated effectively; or
 - (c) In the case of a type 2 report, certain controls did not operate effectively throughout the specified period to achieve the related control objectives stated in management's description of the service organization's system, the service auditor shall identify these findings in the service auditor's report.
50. If the service auditor plans to disclaim an opinion, the service auditor shall not identify the procedures that were performed nor include statements describing the characteristics of a service auditor's engagement in the service auditor's report; to do so might overshadow the disclaimer.

Other Communication Responsibilities

51. In addition to the communication responsibilities in [CSAE 3000](#), 15 if the service auditor becomes aware of matters identified in paragraph [37](#) of this CSAE, the service auditor shall 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 refuses to do so, the service auditor shall take appropriate action. (Ref: Para. [A76](#))

Application and Other Explanatory Material

Scope of this CSAE (Ref: Para. 1-6)

- A1. Controls related to a service organization's operations and compliance objectives may be relevant to a user entity's internal control over financial reporting. Such controls may pertain to assertions about presentation and disclosure relating to account balances, classes of transactions or disclosures, or may pertain to evidence that the user auditor evaluates or uses in applying auditing procedures. For example, a payroll processing service organization's controls related to the timely remittance of payroll deductions to government authorities may be relevant to a user entity because late remittances could incur interest and penalties that would result in a liability for the user entity. Similarly, a service organization's controls over the acceptability of investment transactions from a regulatory perspective may be considered relevant to a user entity's presentation and disclosure of transactions and account balances in its financial statements.
- A2. Paragraph [4](#) of this CSAE refers to other engagements that the practitioner may perform and report on under [CSAE 3000](#) when reporting on controls at a service organization. Paragraph 4 is not, however, intended to:

- (a) Alter the definitions of "service organization" and "service organization's system", in paragraph 9, to permit reports issued under this CSAE to include in the description of the service organization's system aspects of their services (including relevant control objectives and related controls) not likely to be relevant to user entities' internal control over financial reporting; or
 - (b) Permit a report to be issued that combines reporting under this CSAE on a service organization's controls that are likely to be relevant to user entities' internal control over financial reporting, with reporting under [CSAE 3000](#) on controls that are not likely to be relevant to user entities' internal control over financial reporting.
- A3. When a service auditor conducts an engagement under [CSAE 3000](#) to report on controls at a service organization other than those controls likely to be relevant to user entities' internal control over financial reporting, and the service auditor intends to use the guidance in this CSAE in planning and performing that engagement, the service auditor may encounter matters that differ significantly from those associated with engagements to report on a service organization's controls likely to be relevant to user entities' internal control over financial reporting. The following are examples of such matters:
- Identification of suitable and available criteria for evaluating the fairness of presentation of management's description of the service organization's system and the suitability of the design and the operating effectiveness of the controls.
 - Identification of appropriate control objectives, and the basis for evaluating the reasonableness of the control objectives in the circumstances of the particular engagement.
 - Identification of the intended users of the report and the manner in which they intend to use the report.
 - Relevance and appropriateness of the definitions in paragraph 9 of this CSAE, many of which specifically relate to internal control over financial reporting.
 - Application of the concept of materiality in the circumstances of the particular engagement.
 - Developing the language to be used and identifying the elements to be included in a practitioner's report, as discussed in [CSAE 3000](#). 16
- A4. In some circumstances, management of the service organization may not be in a position to assert that the controls are suitably designed, for example, because the controls have been designed by management of the user entity. If management is unable to assert that the controls are suitably designed, management would also be precluded from asserting that the controls are operating effectively because of the inextricable link between the suitability of the design of controls and their operating effectiveness. The absence of a statement with respect to the suitability of design of controls would preclude the service auditor from expressing an opinion on the operating effectiveness of controls. As an alternative, the practitioner may report under [CSAE 3000](#) on whether the controls were operating as described or may perform agreed-upon procedures under [CSRS 4400](#). 17

Definitions (Ref: Para. 9)

Controls at a Service Organization

- A5. The policies and procedures referred to in the definition of "controls at a service organization" in paragraph 9 include aspects of the information and communication component of user entities' internal control maintained by the service organization and the related control activities. Such policies and procedures may also include aspects of the other components of internal control, such as the service organization's control environment, risk assessment, monitoring activities, and control activities when they relate to the services provided. Such definition does not, however, include controls at a service organization that are not related to the achievement of the control objectives stated in management's description of the service organization's system; for example, controls related to the preparation of the service organization's own financial statements.

Service Organization's System (Ref: Para. 9(l))

- A6. The policies and procedures referred to in the definition of "service organization's system" refer to the guidelines and activities for providing transaction processing and other services to user entities and include the infrastructure, software, people, and data that support the policies and procedures.

Subservice Organization (Ref: Para. 9(m))

- A7. There may be instances in which a subservice organization uses the services of another service organization to perform services that are likely to be relevant to user entities' internal control over financial reporting. In those circumstances, the service organization that provides services to the subservice organization is also a subservice organization.

Management and Those Charged with Governance (Ref: Para. 11)

- A8. For the purposes of this CSAE, the responsible party is management of the service organization.
- A9. Management and governance structures vary by entity, reflecting influences such as size and ownership characteristics. Such diversity means that it is not possible for this CSAE to specify for all engagements the person(s) with whom the service auditor is to interact regarding particular matters. For example, the service organization may be a segment of an organization and not a separate legal entity. In such cases, identifying the appropriate management personnel or those charged with governance from whom to request written representations may require the exercise of professional judgment.

Acceptance and Continuance (Ref: Para. 12-14)

Service Auditor Need Not Be Independent of User Entities' (Ref: Para. 12)

- A10. In performing a service auditor's engagement, the service auditor need not be independent of each user entity.

Law or Regulation Requires Acceptance or Continuance of Engagement Entities (Ref: Para. 12)

- A11. If one or more of the conditions in paragraph 12 are not met and the service auditor is nevertheless required by law or regulation to accept or continue an engagement to report on controls at a service organization, the service auditor is required, in accordance with the requirements in paragraphs 48-49, to determine the effect on the service auditor's report of one or more of such conditions not being met.

Management's Responsibility for Documenting the Service Organization's System (Ref: Para. 12(b)(i))

- A12. Management of the service organization is responsible for documenting the service organization's system. No one particular form of documentation is prescribed and the extent of documentation may vary depending on the size and complexity of the service organization and its monitoring activities.

Reasonable Basis for Management's Statement (Ref: Para. 12(b)(ii), 17(a)(viii))

- A13. Management's monitoring activities may provide evidence of the design and operating effectiveness of controls in support of management's statement. Monitoring of controls is a process to assess the effectiveness of internal control performance over time. It involves assessing the effectiveness of controls on a timely basis, identifying and reporting deficiencies to appropriate individuals within the service organization, and taking necessary corrective actions. Management accomplishes monitoring of controls through ongoing activities, separate evaluations, or a combination of the two. Ongoing monitoring activities are often built into the normal recurring activities of an entity and include regular management and supervisory activities. Internal auditors or personnel performing similar functions may contribute to the monitoring of a service organization's activities. Monitoring activities may also include using information communicated by external parties, such as customer complaints, which may indicate problems or highlight areas in need of improvement. The greater the degree and effectiveness of ongoing monitoring, the less need for separate evaluations. Usually, some combination of ongoing monitoring and separate evaluations will ensure that internal control maintains its effectiveness over time. The service auditor's report on controls is not a substitute for the service organization's own processes to provide a reasonable basis for its statement.

Management's Responsibility for Control Objectives (Ref: Para. 12(b)(iv))

- A14. The control objectives stated in management's description of the service organization's system relate to the types of financial statement assertions commonly embodied in the broad range of user entities' financial statements to which controls at the service organization could reasonably be expected to relate.

Management's Responsibility for Identifying Risks (Ref: Para. 12(b)(v))

- A15. Control objectives relate to risks that controls seek to mitigate. For example, the risk that a transaction is recorded at the wrong amount or in the wrong period can be expressed as a control objective that transactions are recorded at the correct amount and in the correct period. Management is responsible for identifying the risks that threaten achievement of the control objectives stated in management's description of the service organization's system. A service organization's controls may be designed with the assumption that user entities will have implemented complementary user entity controls or that the subservice organizations will have implemented complementary subservice organizations controls that are necessary to achieve the control objectives. The risks that management identifies also include the risk that such controls were not implemented by user entities or subservice organizations or that those controls were not operating effectively. Management may have a formal or informal process for identifying relevant risks. A formal process may include estimating the significance of identified risks, assessing the likelihood of their occurrence, and deciding about actions to address them. However, because control objectives relate to risks that controls seek to mitigate, thoughtful identification by management of control objectives when designing, implementing, and documenting the service organization's system may itself comprise an informal process for identifying relevant risks.

Providing a Written Statement (Ref: Para. 12(b)(vi))

- A16. The service organization's statement may be attached to the description of the service organization's system or may be included in the description if clearly segregated from the description, for example, through the use of headings. Segregating the statement from the description clarifies that the statement is not part of the description (see subparagraph (ii) of the definitions of *management's description of a service organization's system and a service auditor's report on that description and on the suitability of the design of controls* and *management's description of a service organization's system and a service auditor's report on that description and on the suitability of the design and operating effectiveness of controls* in paragraph 9 of this CSAE).

Inclusive Method (Ref: Para. 13)

- A17. The inclusive method is generally feasible if, for example, the service organization and the subservice organization are related, or if the contract between the service organization and the subservice organization provides for the use of the inclusive method. In such circumstances, the service organization is the engaging party, and the requirements relative to agreeing on the terms of the engagement may not be applicable.

A18. If the inclusive method is used, matters to be agreed upon or coordinated by the service organization and the subservice organization include:

- The scope of the engagement and the period to be covered by the service auditor's report;
- Acknowledgment from management of the subservice organization that it will provide the service auditor with a written statement and representation letter. (Both management of the service organization and management of the subservice organization are responsible for providing the service auditor with a written statement and representation letter);
- The planned content and format of the inclusive description;
- The representatives of the subservice organization and the service organization who will be responsible for:
 - Providing each entity's description; and
 - Integrating the descriptions; and
- For a type 2 report, the timing of the tests of controls.

Request to Change the Scope of the Engagement (Ref: Para. [14](#))

A19. A request to change the scope of the engagement may not have a reasonable justification if, for example, the request is made:

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

A20. A request to change the scope of the engagement may have a reasonable justification when, for example, the request is made because the service organization, a transfer agent, after providing the description of its system to the service auditor, decides that it would like to remove a control objective related to a new fund setup because only one fund was set up during the reporting period, and management of the fund has performed its own testing. The service auditor concluded that the removal of the control objective related to new fund setup was reasonable in the circumstances because the objective was not relevant to a broad range of user entities during the engagement period.

Requesting a Written Statement (Ref: Para. [15](#) and [20](#))

A21. Paragraph [15](#) applies regardless of whether the responsible party is the engaging party.

A22. [Appendix 2](#), "Illustrative Statements by Management of a Service Organization," contains illustrative management statements for type 1 and type 2 engagements.

Determining the Suitability of the Criteria (Ref: Para. [16-20](#))

A23. [CSAE 3000](#) requires a practitioner, among other things, to determine whether the criteria to be used are suitable and to determine the appropriateness of the underlying subject matter. 18 CSAE 3000 also indicates that one of the attributes of an appropriate underlying subject matter is that it is identifiable and capable of consistent measurement or evaluation against the applicable criteria. 19 As indicated in CSAE 3000, the responsible party (in this case, management of the service organization) or the engaging party is responsible for selecting the criteria, and the engaging party is responsible for determining that such criteria are appropriate for its purposes. 20 CSAE 3000 21 defines the underlying subject matter as the phenomenon that is measured or evaluated by applying criteria.

A24. For the purposes of engagements performed in accordance with this CSAE, criteria need to be available to user entities and their auditors to enable them to understand the basis for the service organization's statement about the fair presentation of management's description of the service organization's system, the suitability of the design of controls that address control objectives stated in the description of the system and, in the case of a type 2 report, the operating effectiveness of such controls. Information about suitable criteria is provided in paragraphs [24\(b\)\(ii\)](#) and [A45-A50](#) of CSAE 3000. Paragraphs [17-19](#) of this CSAE discuss the criteria for evaluating the fairness of the presentation of management's description of the service organization's system and the suitability of the design and operating effectiveness of the controls.

Monitoring the Effectiveness of Controls at Subservice Organizations (Ref: Para. [14\(a\)\(viii\)](#))

A25. Management's description of the service organization's system and the scope of the service auditor's engagement includes controls at the service organization that monitor the effectiveness of controls at the subservice organization, which may include some combination of ongoing monitoring to determine that potential issues are identified timely and separate evaluations to determine that the effectiveness of internal control is maintained over time. Such monitoring activities may include:

- Reviewing and reconciling output reports;
- Holding periodic discussions with the subservice organization;
- Making regular site visits to the subservice organization;
- Testing controls at the subservice organization by members of the service organization's internal audit function;
- Reviewing type 1 and type 2 reports on the subservice organization's system prepared pursuant to this CSAE or [CSAE 3000](#); and

- Monitoring external communications, such as customer complaints relevant to the services provided by the subservice organization.

Materiality (Ref: Para. 21, 27 and 29-30)

- A26. In an engagement to report on controls at a service organization, the concept of materiality relates to the information being reported on, not the financial statements of user entities. The service auditor plans and performs procedures to determine whether, in all material respects, based on the criteria in management's statement, management's description of the service organization's system is fairly presented; controls at the service organization are suitably designed to achieve the control objectives stated in the description; and, in the case of a type 2 report, controls at the service organization operated effectively throughout the specified period to achieve the control objectives stated in the description. The concept of materiality takes into account that the service auditor's report provides information about the service organization's system to meet the common information needs of a broad range of user entities and their auditors who have an understanding of the manner in which the system is being used by a particular user entity for financial reporting.
- A27. Materiality with respect to the fair presentation of management's description of the service organization's system and with respect to the design of controls primarily includes the consideration of qualitative factors, for example, whether:
- Management's description of the service organization's system includes the significant aspects of the processing of significant transactions.
 - Management's description of the service organization's system omits or distorts relevant information.
 - The controls have the ability, as designed, to provide reasonable assurance that the control objectives stated in management's description of the service organization's system would be achieved.
- Materiality with respect to the operating effectiveness of controls includes the consideration of both quantitative and qualitative factors, for example, the tolerable rate and observed rate of deviation (a quantitative matter) and the nature and cause of any observed deviations (a qualitative matter).
- A28. The concept of materiality is not applied when disclosing, in the description of the tests of controls, the results of those tests when deviations have been identified. This is because, in the particular circumstances of a specific user entity or user auditor, a deviation may have significance beyond whether or not, in the opinion of the service auditor, it prevents a control from operating effectively. For example, the control to which the deviation relates may be particularly significant in preventing a certain type of error that may be material in the particular circumstances of a user entity's financial statements.

Obtaining an Understanding of the Service Organization's System and Assessing the Risk of Material Misstatement (Ref: Para. 22 and 24)

- A29. Obtaining an understanding of the service organization's system, including related controls, assists the service auditor in the following:
- Identifying the boundaries of the system and how it interfaces with other systems.
 - Assessing whether management's description of the service organization's system fairly presents the service organization's system that has been designed and implemented.
 - Understanding which controls are necessary to achieve the control objectives stated in management's description of the service organization's system, whether controls were suitably designed to achieve those control objectives, and, in the case of a type 2 report, whether controls were operating effectively throughout the specified period to achieve those control objectives.
 - When a separate type 1 or type 2 report exists for a subservice organization, whether management has identified controls that are necessary, either at the service organization or at user entities, to address relevant complementary user entity controls identified in the carved-out subservice organization's description of its system.
- A30. Paragraph 17(a)(viii) of this CSAE indicates that the criteria for assessing whether management's description of the service organization's system is fairly presented should include other aspects of the service organization's control environment, risk assessment process, information and communications (including relevant business processes), control activities and monitoring activities that are relevant to the services provided. Although aspects of the service organization's control environment, risk assessment process, and monitoring activities may not be presented in the description in the context of control objectives, they may nevertheless be necessary to achieve the specified control objectives stated in the description. Likewise, deficiencies in these controls may have an effect on the service auditor's assessment of whether the controls, taken as a whole, were suitably designed or operating effectively to achieve the specified control objectives.
- A31. The service auditor's procedures to obtain the understanding may include the following:
- Inquiring of management and others within the service organization who, in the service auditor's judgment, may have relevant information.
 - Observing operations and inspecting documents, reports, and printed and electronic records of transaction processing.

- Inspecting a selection of agreements between the service organization and user entities to identify their common terms.
- Reperforming the application of a control.

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

- A32. In a type 1 or type 2 engagement, the risk of material misstatement relates to the risk that, in all material respects, based on the criteria in management's statement:
- (a) Management's description of the service organization's system is not fairly presented;
 - (b) The controls are not suitably designed to provide reasonable assurance that the control objectives stated in management's description of the service organization's system would be achieved if the controls operated effectively; and
 - (c) In the case of a type 2 report, the controls did not operate effectively throughout the specified period to achieve the related control objectives stated in management's description of the service organization's system.

- A33. The risks identified in paragraph A32 may include those related to new or changed controls, system changes, significant changes in processing volume, new personnel or significant changes in key management or personnel, new types of transactions, new products or technologies, or modifications to the service auditor's opinion in the service auditor's report for the prior year.

Reasonable Assurance (Ref: Para. 27, 29-30 and 36)

- A34. In an engagement to report on a service organization's controls, the service auditor plans and performs the engagement to obtain reasonable assurance of detecting misstatements in management's description of the service organization's system and instances in which control objectives were not achieved. Absolute assurance is not attainable because of factors such as the need for judgment, the use of sampling, and the inherent limitations of controls at the service organization that affect whether the description is fairly presented and the controls are suitably designed and operating effectively to achieve the control objectives, and because much of the evidence available to the service auditor is persuasive rather than conclusive in nature. Also, procedures that are effective for detecting unintentional misstatements in the description, and instances in which control objectives were not achieved, may be ineffective for detecting intentional misstatements in the description resulting from fraud and instances in which the control objectives were not achieved that are concealed through collusion between service organization personnel and a third party or among management or employees of the service organization. Therefore, the subsequent discovery of the existence of material misstatements in the description or instances in which control objectives were not achieved does not, in and of itself, evidence inadequate planning, performance, or judgment on the part of the service auditor.

Obtaining Evidence Regarding Management's Description of the Service Organization's System (Ref: Para. 17(a)(vi) and 27-28)

- A35. Considering the following questions may assist the service auditor in determining whether management's description of the service organization's system is fairly presented, in all material respects, based on the criteria in management's statement:
- Is the description prepared at a level of detail that could reasonably be expected to provide a broad range of user auditors with sufficient information to obtain an understanding of internal control as it relates to identifying and assessing risks of material misstatement in the audit of financial statements of the user entities? The description need not address every aspect of the service organization's processing or the services provided to user entities and need not be so detailed that it would potentially enable a reader to compromise security or other controls at the service organization.
 - Is the description prepared in a manner that does not omit or distort information that might affect the decisions of a broad range of user auditors, for example, does the description contain any significant omissions or inaccuracies regarding processing of which the service auditor is aware?
 - Does the description include relevant details of changes to the service organization's system during the period covered by the description when the description covers a period of time?
 - Have the controls identified in the description actually been implemented?
 - If the inclusive method has been used, does the description separately identify controls at the service organization and controls at the subservice organization? Does the description include activities at the service organization that monitor the effectiveness of controls at the subservice organization?
 - Are complementary user entity controls, if any, adequately described? In most cases, the control objectives stated in the description are worded so that they are capable of being achieved through the effective operation of controls implemented by the service organization alone. In some cases, however, the control objectives stated in the description cannot be achieved by the service organization alone because their achievement requires particular controls to be implemented by user entities. For example, to achieve the specified control objectives, a user entity may need to review the completeness and accuracy of input provided to the service organization before submitting it to the service organization or the completeness and accuracy of reports provided to the user entity subsequent to processing. When the description does include complementary user entity controls, the

- description separately identifies those controls along with the specific control objectives that cannot be achieved by the service organization alone.
- If the carve-out method has been used, does the description identify the functions that are performed by the subservice organization? (When the carve-out method has been used, the description does not describe the detailed processing or controls at the subservice organization.) Does the description include activities at the service organization that monitor the effectiveness of controls at the subservice organization as well as complementary subservice organization controls?
- A36. The service auditor's procedures to evaluate the fair presentation of management's description of the service organization's system may include the following:
- Considering the nature of the user entities and how the services provided by the service organization are likely to affect them, for example, the predominant types of user entities, and whether the user entities are regulated by government agencies.
 - Reading contracts with user entities to gain an understanding of the service organization's contractual obligations.
 - Observing procedures performed by service organization personnel.
 - Reviewing the service organization's policy and procedure manuals and other documentation of the system (for example, flowcharts and narratives).
 - Performing walkthroughs of transactions through the service organization's system.
- A37. Paragraph [27\(a\)](#) requires the service auditor to evaluate whether the control objectives stated in management's description of the service organization's system are reasonable in the circumstances. Considering the following questions may assist the service auditor in this evaluation:
- Do the control objectives stated in the description relate to the types of assertions commonly embodied in the broad range of user entities' financial statements to which controls at the service organization could reasonably be expected to relate (for example, assertions about existence and accuracy that are affected by access controls that prevent or detect unauthorized access to the system)? Although the service auditor ordinarily will not be able to determine how controls at a service organization specifically relate to the assertions embodied in individual user entities' financial statements, the service auditor considers matters, such as the following, when identifying the types of assertions to which the controls are likely to relate:
 - The types of services provided by the service organization, including the classes of transactions processed.
 - The contents of reports and other information prepared for user entities.
 - The information used in the performance of procedures.
 - The types of significant events other than transactions that occur in providing the services.
 - Services performed by a subservice organization, if any.
 - The responsibility of the service organization to implement controls, including responsibilities established in contracts and agreements with user entities.
 - The risks to a user entity's internal control over financial reporting arising from information technology used or provided by the service organization.
 - Are the control objectives stated in the description complete? Although a complete set of control objectives can provide a broad range of user auditors with a framework to assess the effect of controls at the service organization on assertions commonly embodied in user entities' financial statements, the service auditor ordinarily will not be able to determine how controls at a service organization specifically relate to the assertions embodied in individual user entities' financial statements and cannot, therefore, determine whether control objectives are complete from the viewpoint of individual user entities or user auditors. It is the responsibility of individual user entities or user auditors to assess whether the service organization's description addresses the particular control objectives that are relevant to their needs. If the control objectives are specified by an outside party, including control objectives specified by law or regulation, the outside party is responsible for their completeness and reasonableness.
- A38. The service auditor's procedures to determine whether the system described by the service organization has been implemented may be similar to, and performed in conjunction with, procedures to obtain an understanding of that system. Other procedures that the service auditor may use in combination with inquiry of management and other service organization personnel include observation, inspection of records and other documentation, as well as reperformance of the manner in which transactions are processed through the system and controls are applied.
- Obtaining Evidence Regarding the Design of Controls (Ref: Para. [29](#))**
- A39. The risks and control objectives identified in paragraph [29\(a\)](#) encompass fraud and unintentional acts that threaten the achievement of the control objective.
- A40. From the viewpoint of a user auditor, a control is suitably designed to achieve the control objectives stated in management's description of the service organization's system if individually or in combination with other controls, it would, when complied with satisfactorily, provide reasonable assurance that material misstatements are prevented, or

detected and corrected. A service auditor, however, is not aware of the circumstances at individual user entities that would affect whether or not a misstatement is material to those user entities. Therefore, from the viewpoint of a service auditor, a control is suitably designed if individually or in combination with other controls, it would, when complied with satisfactorily, provide reasonable assurance that the control objective(s) stated in the description of the service organization's system are achieved.

- A41. A service auditor may consider using flowcharts, questionnaires, or decision tables to facilitate understanding the design of the controls.
- A42. Controls may consist of a number of activities directed at the achievement of various control objectives. Consequently, if the service auditor evaluates certain activities as being ineffective in achieving a particular control objective, the existence of other activities may allow the service auditor to conclude that controls related to the control objective are suitably designed to achieve the control objective.
- A43. The service organization may have different controls in place to address each of the risks associated with the control objective; therefore, multiple controls may be needed in order for the service auditor to conclude on the design of controls relating to each of the risks associated with the control objective.

Obtaining Evidence Regarding the Operating Effectiveness of Controls (Ref: Para. [17\(b\), 30-31](#))

- A44. From the viewpoint of a user auditor, a control is operating effectively if individually or in combination with other controls, it provides reasonable assurance that material misstatements are prevented or detected and corrected. A service auditor, however, is not aware of the circumstances at individual user entities that would affect whether or not a misstatement resulting from a control deviation is material to those user entities. Therefore, from the viewpoint of a service auditor, a control is operating effectively if individually or in combination with other controls, it provides reasonable assurance that the control objectives stated in management's description of the service organization's system are achieved. Similarly, a service auditor is not in a position to determine whether any observed control deviation would result in a material misstatement from the viewpoint of an individual user entity.
- A45. Obtaining an understanding of controls sufficient to opine on the suitability of their design is not sufficient evidence regarding their operating effectiveness unless some automation provides for the consistent operation of the controls as they were designed and implemented. For example, obtaining information about the implementation of a manual control at a point in time does not provide evidence about operation of the control at other times. However, because of the inherent consistency of information technology (IT) processing, performing procedures to determine the design of an automated application 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 IT general controls such as those over program changes.
- A46. Evidence about the satisfactory operation of controls in prior periods does not provide evidence of the operating effectiveness of controls during the current period. The service auditor expresses an opinion on the effectiveness of controls throughout each period; therefore, sufficient appropriate evidence about the operating effectiveness of controls throughout the current period is required for the service auditor to express that opinion for the current period. Knowledge of modifications to the service auditor's report or deviations observed in prior engagements may, however, be considered in assessing risk and lead the service auditor to increase the extent of testing during the current period.
- A47. Generally, a type 2 report(s) is most useful to user entities and their auditors when it covers a substantial portion of the period covered by the user entity's financial statements being audited.
- A48. Determining the effect of changes in the service organization's controls that were implemented during the period covered by the service auditor's report involves gathering information about the nature and extent of such changes, how they affect processing at the service organization, and how they might affect assertions in the user entities' financial statements.
- A49. Certain controls may not leave evidence of their operation that can be tested at a later date and, accordingly, the service auditor may find it appropriate to test the operating effectiveness of such controls at various times throughout the reporting period.

Evaluating the Reliability of Information Produced by the Service Organization (Ref: Para. [32](#))

- A50. Reliable information is sufficiently accurate and complete.
- A51. Obtaining evidence about the accuracy and completeness of information produced by the service organization may be accomplished concurrently with the actual procedure applied to the information when obtaining such evidence is an integral part of the procedure itself. In other situations, the service auditor may have obtained evidence of the accuracy and completeness of such information by testing controls over the preparation and maintenance of the information. In some situations, however, the service auditor may determine that additional procedures are needed.
- A52. The following are examples of information produced by a service organization that are commonly used by a service auditor:
 - Population lists the service auditor uses to select a sample of items for testing.
 - Lists of data that have specific characteristics.
 - Exception reports.

- Transaction reconciliations.
- Documentation that provides evidence of the operating effectiveness of controls, such as user-access lists.
- System-generated reports.
- Other system-generated data.

Means of Selecting Items for Testing

- A53. The means of selecting items for testing available to the service auditor are:
- Selecting all items (100% examination). This may be appropriate for testing controls that are applied infrequently (for example, quarterly, or when evidence regarding application of the control makes 100% examination efficient);
 - Selecting specific items. This may be appropriate where 100% examination would not be efficient, and sampling would not be effective, such as testing controls that are not applied frequently enough to render a large population for sampling, for example, controls that are applied monthly or weekly; and
 - Sampling. This may be appropriate for testing controls that are applied frequently in a uniform manner and which leave documentary evidence of their application.
- A54. While selective examination of specific items will often be an efficient means of obtaining evidence, it does not constitute sampling. The results of procedures applied to items selected in this way cannot be projected to the entire population; accordingly, selective examination of specific items does not provide evidence concerning the remainder of the population. Sampling, on the other hand, is designed to enable conclusions to be drawn about an entire population based on testing a sample drawn from it.

Nature and Cause of Deviations (Ref: Para. 37)

- A55. The service auditor may find it appropriate to consider [CAS 250](#) 22 when determining the effect of identified or suspected instances of non-compliance with laws and regulations.

Using the Work of the Internal Audit Function (Ref: Para. 39-40)

- A56. The service auditor may find it appropriate to consider the requirements in [CAS 610](#) 23 when using the work of the internal audit function.

Written Representations (Ref: Para. 14, 41-44)

- A57. Written representations reaffirming the service organization's statement about the effective operation of controls may be based on ongoing monitoring activities, separate evaluations, or a combination of the two.
- A58. In certain circumstances, a service auditor may obtain written representations from parties in addition to management of the service organization, such as those charged with governance.
- A59. The written representations required by paragraph [41](#) are separate from and in addition to the statement that accompanies management's description of the service organization's system.
- A60. In addition to the written representations required by paragraph [41](#), the service auditor may consider it necessary to request other written representations.
- A61. If the service auditor is unable to obtain written representations regarding relevant control objectives and related controls at the subservice organization, management of the service organization may be able to use the carve-out method.

Other Information (Ref: Para. 45, 46(c)(iii) and 47(c)(iii))

- A62. The "other information" referred to in paragraph [45](#) may be the following:
- Information provided by the service organization and included in a separate section of the type 1 or type 2 report; or
 - Information outside the service auditor's type 1 or type 2 report included in a document that contains the service auditor's report. This other information may be provided by the service organization or by another party.

Content of the Service Auditor's Report (Ref: Para. 46-47)

- A63. Examples of service auditors' reports are presented in [Appendix 1](#), and illustrative statements by management of the service organization are presented in [Appendix 2](#).
- A64. The list of report elements in paragraphs [46](#) and [47](#) constitutes all the required report elements for a service auditor's type 2 and type 1 engagement, respectively, including the elements required in [CSAE 3000](#). Application guidance regarding the elements of a practitioner's report is included in CSAE 3000.
- A65. The following is an example of the information required by paragraphs [46\(c\)\(iv\)\(a\)](#) and [47\(c\)\(iv\)\(a\)](#):
- As indicated in the description, XYZ Service Organization uses a subservice organization for all of its computerized application processing. The description includes only the control objectives and related controls of XYZ Service Organization and excludes the control objectives and related controls of the subservice organization. The description also indicates that certain control objectives specified by XYZ Service Organization can be achieved only if complementary subservice organization controls assumed in the design of XYZ Service Organization's controls are suitably designed and operating effectively, along with related controls at XYZ Service Organization. Our engagement

did not extend to controls of the subservice organization, and we have not evaluated the suitability of the design or operating effectiveness of such complementary subservice organization controls.

Description of the Service Auditor's Tests of Controls and the Results Thereof (Ref: Para. 46(n))

- A66. The service auditor may include in the description of tests of controls and results the procedures the service auditor performed to verify the completeness and accuracy of information provided by the service organization.
- A67. 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.
- A68. When the work of the internal audit function has been used in performing tests of controls, the service auditor's description of that work and of the service auditor's procedures with respect to that work may be presented in a number of ways; for example:
- By including introductory material to the description of tests of controls indicating that certain work of the internal audit function was used in performing tests of controls and describing the service auditor's procedures with regard to that work.
 - By attributing individual tests to internal audit and describing the service auditor's procedures with regard to that work.
- A69. The work of the internal audit function referred to in paragraph 46(n)(v) does not include tests of controls performed by internal auditors as a part of direct assistance.
- A70. Other than the description of the work of the internal auditors referred to in paragraph 46(n)(v), the service auditor's report does not make any reference to the use of the work of the internal audit function to obtain evidence or to the use of internal auditors to provide direct assistance.

Use of the Service Auditor's Report (Ref: Para. 46(o) and 47(o))

- A71. [CSAE 3000](#) requires that the practitioner's report include a caution that the report is intended only for the use of the intended users when the criteria used to evaluate or measure the subject matter are available only to an identifiable limited group of users and the practitioner is satisfied such users agree their needs are met by using these criteria. 26 The criteria used for engagements to report on controls at a service organization are relevant only for the purpose of providing information about the service organization's system, including controls, to those who have an understanding of how the system is used for financial reporting by user entities and, accordingly, the service auditor's report states that the report and the description of tests of controls are intended only for use by management of the service organization, user entities of the service organization ("during some or all of the period covered by the service auditor's report" for a type 2 report, and "as of the specified date" for a type 1 report), and their user auditors. (The illustrative reports in [Appendix 1](#) illustrate language for a paragraph restricting the use of a service auditor's report.)
- A72. Although the alert language in the service auditor's report restricts the use of the report, a service auditor is not responsible for controlling a service organization's distribution of a service auditor's report. A service auditor may inform the service organization of the following:
- A service auditor's type 1 report is not intended for distribution to parties other than the service organization, user entities of the service organization's system as of the end of the period covered by the report, and their user auditors.
 - A service auditor's type 2 report is not intended for distribution to parties other than the service organization, user entities of the service organization's system during some or all of the period covered by the report, and their user auditors.
- A73. A user entity is also considered a user entity of the service organization's subservice organizations if controls at subservice organizations are relevant to internal control over financial reporting of the user entity. In such case, the user entity is referred to as an "indirect" or "downstream" user entity of the subservice organization. Consequently, an indirect or downstream user entity may be included in the group to whom use of the service auditor's report is restricted if controls at the service organization are relevant to internal control over financial reporting of such indirect or downstream user entity.
- A74. In engagements in which the inclusive method is used, the users of a subservice organization's system that are not users of the service organization's system, are not user entities as defined in paragraph 9.
- A75. In engagements in which the inclusive method is used, management of a subservice organization may be identified as a specified party and, if so, would be included in the alert language described in paragraphs 46(o) and 47(o).

Other Communication Responsibilities (Ref: Para. 51)

- A76. Actions that a service auditor may take when the service auditor becomes aware of non-compliance with laws and regulations, fraud, or uncorrected misstatements at the service organization (after giving additional consideration to instances in which the service organization has not appropriately communicated this information to affected user entities, and the service organization refuses to do so), include the following:
- Obtaining legal advice about the consequences of different courses of action.
 - Communicating with those charged with governance of the service organization.

- Disclaiming an opinion, modifying the service auditor's opinion or adding an Other Matter paragraph.
- Communicating with third parties (for example, a regulator), when required to do so.
- Considering the nature of the user entities and how the service provided by the service organization are likely to affect them, for example, the predominant types of user entities, and whether the user entities are regulated by government agencies.
- Reading contracts with user entities to gain an understanding of the service organization's contractual obligations.
- Observing procedures performed by service organization personnel.
- Reviewing the service organization's policy and procedure manuals and other documentation of the system, for example, flowcharts and narratives.
- Performing walkthroughs of transactions through the service organization's system.
- Withdrawing from the engagement.

Appendix 1

(Ref: Para. [A63](#))

Illustrative Service Auditor's Reports

The following illustrative service auditor's reports contain text in boldface italics that would be added to the report if the situation described in the text is applicable. These illustrative reports are for guidance only and are not intended to be exhaustive or applicable to all situations. The inclusion of headings in the report may be useful but is not required by this CSAE or [CSAE 3000](#).

Example 1: Type 2 Service Auditor's Report

Independent Service Auditor's Report 1 on XYZ Service Organization's Description of Its [type or name of] System and the Suitability of the Design and Operating Effectiveness of Controls

To: XYZ Service Organization

Scope

We have been engaged to report on XYZ Service Organization's description of its [type or name of] system entitled "XYZ Service Organization's Description of Its [type or name of] System" for processing user entities' transactions [or identification of the function performed by the system] throughout the period [date] to [date] (description) and the suitability of the design and operating effectiveness of controls included in the description to achieve the related control objectives stated in the description, based on the criteria identified in "XYZ Service Organization's Statement" (statement). The controls and control objectives included in the description are those that management of XYZ Service Organization believes are likely to be relevant to user entities' internal control over financial reporting, and the description does not include those aspects of the [type or name of] system that are not likely to be relevant to user entities' internal control over financial reporting.

[A statement such as the following is added to the service auditor's report when information that is not covered by the report is included in the description of the service organization's system.]

The information included in [section number where the other information is presented], "Other Information Provided by XYZ Service Organization" is presented by management of XYZ Service Organization to provide additional information and is not a part of XYZ Service Organization's description of its [name or type of] system made available to user entities during the period [date] to [date]. Information about XYZ Service Organization's [describe the nature of the information, for example, business continuity planning, privacy practices, and so on] has not been subjected to the procedures applied in our engagement to report on the description of the [name or type of] system and of the suitability of the design and operating effectiveness of controls to achieve the related control objectives stated in the description of the [name or type of] system.

[A statement such as the following is added to the service auditor's report when the service organization uses a subservice organization, the carve-out method is used to present the subservice organization, and complementary subservice organization controls are required to meet the control objectives.]

XYZ Service Organization uses a subservice organization to [identify the function or service provided by the subservice organization]. The description includes only the control objectives and related controls of XYZ Service Organization and excludes the control objectives and related controls of the subservice organization. The description also indicates that certain control objectives specified by XYZ Service Organization can be achieved only if complementary subservice organization controls assumed in the design of XYZ Service Organization's controls are suitably designed and operating effectively, along with the related controls at XYZ Service Organization. Our engagement did not extend to controls of the subservice organization, and we have not evaluated the suitability of the design or operating effectiveness of such complementary subservice organization controls.

[A statement such as the following is added to the service auditor's report when complementary user entity controls are required to meet the control objectives.]

The description indicates that certain control objectives specified in the description can be achieved only if complementary user entity controls assumed in the design of XYZ Service Organization's controls are suitably designed and operating effectively, along with related controls at the service organization. Our engagement did not extend to such complementary

user entity controls, and we have not evaluated the suitability of the design or operating effectiveness of such complementary user entity controls.

Service organization's responsibilities

In [section number where the statement is presented], XYZ Service Organization has provided a statement about the fairness of the presentation of the description and suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the description. XYZ Service Organization is responsible for preparing the description and the statement, including the completeness, accuracy, and method of presentation of the description and the statement, providing the services covered by the description, specifying the control objectives and stating them in the description, identifying the risks that threaten the achievement of the control objectives, selecting the criteria included in the statement, and designing, implementing, and documenting controls that are suitably designed and operating effectively to achieve the related control objectives stated in the description.

Our independence and quality management

We have complied with the relevant rules of professional conduct / code of ethics applicable to the practice of public accounting and related to assurance engagements, issued by various professional accounting bodies, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies [Canadian Standard on Quality Management 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements](#), which requires the firm to design, implement and operate a system of quality management, including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Service auditor's responsibilities

Our responsibility, under this engagement, is to express an opinion on the fairness of the presentation of the description and on the suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the description.

Our engagement was conducted in accordance with [Canadian Standard on Assurance Engagements 3416, Reporting on Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting](#). This standard requires that we plan and perform our engagement to obtain reasonable assurance about whether, in all material respects, based on the criteria in management's statement, the description is fairly presented and the controls were suitably designed and operating effectively to achieve the related control objectives stated in the description, throughout the period [date] to [date]. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

A reasonable assurance engagement to report on a description of a service organization's system and the suitability of the design and operating effectiveness of the service organization's controls to achieve the related control objectives stated in the description involves:

- performing procedures to obtain evidence about the fairness of the presentation of the description and the suitability of the design and operating effectiveness of those controls to achieve the related control objectives stated in the description, based on the criteria in management's statement;
- 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;
- testing the operating effectiveness of those controls management considers necessary to provide reasonable assurance that the related control objectives stated in the description were achieved; and
- evaluating the overall presentation of the description and the suitability of the control objectives stated in the description, and suitability of the criteria specified by the service organization in its statement.

Inherent limitations

The description is prepared to meet the common needs of a broad range of user entities and their auditors who audit and report on user entities' financial statements and may not, therefore, include every aspect of the system that each individual user entity may consider important in its own particular environment. Because of their nature, controls at a service organization may not prevent, or detect and correct, all misstatements in processing or reporting transactions [or identification of the function performed by the system]. Also, the projection to the future of any evaluation of the fairness of the presentation of the description, or conclusions about the suitability of the design or operating effectiveness of the controls to achieve the related control objectives, is subject to the risk that controls at a service organization may become ineffective.

Description of tests of controls

The specific controls tested and the nature, timing, and results of those tests are listed in [section number where the description of tests of controls is presented].

Opinion

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

- a. the description fairly presents the [type or name of] system that was designed and implemented throughout the period [date] to [date].
- b. the controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period [date] to

- [date] and subservice organizations and user entities applied the complementary controls assumed in the design of XYZ Service Organization's controls throughout the period [date] to [date].
- c. the controls operated effectively to provide reasonable assurance that the control objectives stated in the description were achieved throughout the period [date] to [date] if complementary subservice organization and user entity controls assumed in the design of XYZ Service Organization's controls operated effectively throughout the period [date] to [date].

Restricted use

This report, including the description of tests of controls and results thereof in [section number where the description of tests of controls is presented], is intended solely for the information and use of management of XYZ Service Organization, user entities of XYZ Service Organization's [type or name of] system during some or all of the period [date] to [date], and their auditors who audit and report on such user entities financial statements or internal control over financial reporting and have a sufficient understanding to consider it, along with other information including information about controls implemented by user entities themselves, when assessing the risks of material misstatements of user entities' financial statements. This report is not intended to be, and should not be, used by anyone other than the specified parties.

[Service auditor's signature]

[Service auditor's address]

[Date of the service auditor's report]

Example 2: Type 1 Service Auditor's Report

Independent Service Auditor's Report 2 on XYZ Service Organization's Description of Its [type or name of] System and the Suitability of the Design of Controls

To: XYZ Service Organization

Scope

We have been engaged to report on XYZ Service Organization's description of its [type or name of] system entitled, "XYZ Service Organization's Description of Its [type or name of] System," for processing user entities' transactions [or identification of the function performed by the system] as of [date] (description) and the suitability of the design of the controls in the description to achieve the related control objectives stated in the description, based on the criteria identified in "XYZ Service Organization's Statement" (statement). The controls and control objectives included in the description are those that management of XYZ Service Organization believes are likely to be relevant to user entities' internal control over financial reporting, and the description does not include those aspects of the [type or name of] system that are not likely to be relevant to user entities' internal control over financial reporting.

[A statement such as the following is added to the service auditor's report when information that is not covered by the report is included in the description of the service organization's system.]

The information included in [section number where the other information is presented], "Other Information Provided by XYZ Service Organization," is presented by management of XYZ Service Organization to provide additional information and is not a part of XYZ Service Organization's description of its [name or type of] system made available to user entities as of [date]. Information about XYZ Service Organization's [describe the nature of the information, for example, business continuity planning, privacy practices, and so on] has not been subjected to the procedures applied in our engagement to report on the description of the [name or type of] system and of the suitability of the design of controls to achieve the related control objectives stated in the description of the [name or type of] system.

[A statement such as the following is added to the report when the service organization uses a subservice organization, the carve-out method is used to present the subservice organization, and complementary subservice organization controls are required to meet the control objectives.]

XYZ Service Organization uses a subservice organization to [identify the function or service provided by the subservice organization]. The description includes only the control objectives and related controls of XYZ Service Organization and excludes the control objectives and related controls of the subservice organization. The description also indicates that certain control objectives specified by XYZ Service Organization can be achieved only if complementary subservice organization controls assumed in the design of XYZ Service Organization's controls are suitably designed and operating effectively, along with the related controls at XYZ Service Organization. Our engagement did not extend to controls of the subservice organization, and we have not evaluated the design or operating effectiveness of such complementary subservice organization controls.

[A statement such as the following is added to the service auditor's report when complementary user entity controls are required to meet the control objectives.]

The description indicates that certain control objectives specified in the description can be achieved only if complementary user entity controls assumed in the design of XYZ Service Organization's controls are suitably designed and operating effectively, along with related controls at the service organization. Our engagement did not extend to such complementary user entity controls, and we have not evaluated the suitability of the design or operating effectiveness of such complementary user entity controls.

Service organization's responsibilities

In [section number where statement is presented], XYZ Service Organization has provided a statement about the fairness of the presentation of the description and suitability of the design of the controls to achieve the related controls objectives stated in the description. XYZ Service Organization is responsible for preparing the description and its statement, including the completeness, accuracy, and method of presentation of the description and the statement, providing the services covered by the description, specifying the control objectives and stating them in the description, identifying the risks that threaten the achievement of the control objectives, selecting the criteria included in its statement, and designing, implementing, and documenting controls that are suitably designed and operating effectively, to achieve the related control objectives stated in the description.

Our independence and quality management

We have complied with the relevant rules of professional conduct / code of ethics applicable to the practice of public accounting and related to assurance engagements, issued by various professional accounting bodies, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

The firm applies [Canadian Standard on Quality Management 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements](#), which requires the firm to design, implement and operate a system of quality management, including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

Service auditor's responsibilities

Our responsibility, under this engagement, is to express an opinion on the fairness of the presentation of the description and on the suitability of the design of the controls to achieve the related control objectives stated in the description.

Our engagement was conducted in accordance with [Canadian Standard on Assurance Engagements 3416, Reporting on Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting](#). This standard requires that we plan and perform our engagement to obtain reasonable assurance about whether, in all material respects, based on the criteria in management's statement, the description is fairly presented and the controls were suitably designed to achieve the related control objectives stated in the description as of [date]. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

A reasonable assurance engagement to report on a description of a service organization's system and the suitability of the design of the service organization's controls to achieve the related control objectives stated in the description involves:

- performing procedures to obtain evidence about the fairness of the presentation of the description of the system and the suitability of the design of the controls to achieve the related control objectives stated in the description, based on the criteria in management's statement;
- assessing the risks that the description is not fairly presented and that the controls were not suitably designed to achieve the related control objectives stated in the description; and
- evaluating the overall presentation of the description, suitability of the control objectives stated in the description, and suitability of the criteria specified by the service organization in its statement.

Inherent limitations

The description is prepared to meet the common needs of a broad range of user entities and their auditors who audit and report on user entities' financial statements and may not, therefore, include every aspect of the system that each individual user entity may consider important in its own particular environment. Because of their nature, controls at a service organization may not prevent, or detect and correct, all misstatements in processing or reporting transactions [or identification of the function performed by the system]. Also, the projection to the future of any evaluation of the fairness of the presentation of the description, or any conclusions about the suitability of the design of the controls to achieve the related control objectives is subject to the risk that controls at a service organization may become ineffective.

Other matter

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.

Opinion

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

- a. the description fairly presents the [type or name of] system that was designed and implemented as of [date].
- b. the controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively as of [date] **and subservice organizations and user entities applied the complementary controls assumed in the design of XYZ Service Organization's controls as of [date].**

Restricted use

This report is intended solely for the information and use of management of XYZ Service Organization, user entities of XYZ Service Organization's [type or name of] system as of [date], and their auditors who audit and report on such user entities' financial statements or internal control over financial reporting and have a sufficient understanding to consider it, along with other information including information about controls implemented by user entities themselves, when assessing the risks of material misstatements of user entities' financial statements. This report is not intended to be and should not be used by anyone other than the specified parties.

[Service auditor's signature]
[Service auditor's address]
[Date of the service auditor's report]

Appendix 2
(Ref: Para. [A63](#))

Illustrative Statements by Management of a Service Organization

Paragraph [12\(b\)\(vi\)](#) indicates that one of the preconditions for a service auditor to accept or continue an engagement is that management acknowledge and accept responsibility for providing a written statement that accompanies management's description of the service organization's system. Paragraph [A16](#) indicates that the service organization has the option of attaching the statement to the description of the service organization's system or including it in the description and clearly segregating the statement from the description, for example, through the use of headings. Segregating the statement from the description clarifies that the statement is not part of the description.

The following illustrative management statements contain text in boldface italics that would be added to management's statement if the situation described in the text is applicable. These illustrative statements are for guidance only and are not intended to be exhaustive or applicable to all situations.

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

XYZ Service Organization's Statement

We have prepared the description of XYZ Service Organization's [type or name of] system entitled, "XYZ Service Organization's Description of Its [type or name of] System," for processing user entities' transactions [or identification of the function performed by the system] throughout the period [date] to [date] (description) for user entities of the system during some or all of the period [date] to [date], and their auditors who audit and report on such user entities' financial statements or internal control over financial reporting and have a sufficient understanding to consider it, along with other information, ***including information about controls implemented by subservice organizations and user entities of the system themselves***, when assessing the risks of material misstatements of user entities' financial statements.

[A statement such as the following is added to management's statement when the service organization uses a subservice organization, the carve-out method is used to present the subservice organization, and complementary subservice organization controls are required to meet the control objectives.]

XYZ Service Organization uses a subservice organization to [identify the function or service provided by the subservice organization]. The description includes only the control objectives and related controls of XYZ Service Organization and excludes the control objectives and related controls of the subservice organization. The description also indicates that certain control objectives specified in the description can be achieved only if complementary subservice organization controls assumed in the design of our controls are suitably designed and operating effectively, along with the related controls. The description does not extend to controls of the subservice organization.

[A statement such as the following is added to management's statement when complementary user entity controls are required to meet the control objectives.]

The description indicates that certain control objectives specified in the description can be achieved only if complementary user entity controls assumed in the design of XYZ Service Organization's controls are suitably designed and operating effectively, along with related controls at the service organization. The description does not extend to controls of the user entities.

We confirm, to the best of our knowledge and belief, that:

a. The description fairly presents the [type or name of] system made available to user entities of the system during some or all of the period [date] to [date] for processing their transactions [or identification of the function performed by the system] as it relates to controls that are likely to be relevant to user entities' internal control over financial reporting. The criteria we used in making this statement were that the description:

- (i) Presents how the system made available to user entities of the system was designed and implemented to process relevant user-entity transactions, including, if applicable:
 1. The types of services provided, including, as appropriate, the classes of transactions processed;
 2. The procedures, within both automated and manual systems, by which those services are provided, including, as appropriate, procedures by which transactions are initiated, authorized, recorded, processed, corrected as necessary, and transferred to the reports and other information prepared for user entities of the system;
 3. The information used in the performance of the procedures including, if applicable, related accounting records, whether electronic or manual, and supporting information involved in initiating, authorizing, recording, processing, and reporting transactions; this includes the correction of incorrect information and how information is transferred to the reports and other information prepared for user entities of the system;
 4. How the system captures and addresses significant events and conditions, other than transactions;
 5. The process used to prepare reports or other information for user entities;

- 6. Services performed by a subservice organization, if any, including whether the carve-out method or the inclusive method has been used in relation to them;
 - 7. The specified control objectives and controls designed to achieve those objectives, including, as applicable, complementary user entity controls and complementary subservice organization controls assumed in the design of the service organization's controls; and
 - 8. Other aspects of our control environment, risk assessment process, information and communications (including the related business processes), control activities, and monitoring activities that are relevant to the services provided;
- (ii) includes relevant details of changes to the service organization's system during the period covered by the description; and
- (iii) does not omit or distort information relevant to the service organization's system, while acknowledging that the description is prepared to meet the common needs of a broad range of user entities of the system and their user auditors, and may not, therefore, include every aspect of the [type or name of] system that each individual user entity of the system and its auditor may consider important in its own particular environment.
- b. The controls related to the control objectives stated in the description were suitably designed and operated effectively throughout the period [date] to [date] to achieve those control objectives *if the subservice organizations and user entities applied the complementary controls assumed in the design of XYZ Service Organization's controls throughout the period [date] to [date]*. The criteria we used in making this statement were that:
- (i) The risks that threaten the achievement of the control objectives stated in the description have been identified by management of the service organization;
 - (ii) The controls identified in the description would, if operating effectively, provide reasonable assurance that those risks would not prevent the control objectives stated in the description from being achieved; and
 - (iii) The controls were consistently applied as designed, including whether manual controls were applied by individuals who have the appropriate competence and authority.

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

XYZ Service Organization's Statement

We have prepared the description of XYZ Service Organization's [type or name of] system entitled, "XYZ Service Organization's Description of Its [type or name of] system," for processing user entities' transactions [or identification of the function performed by the system] as of [date] (description) for user entities of the system as of [date], and their auditors who audit and report on such user entities' financial statements or internal control over financial reporting and have a sufficient understanding to consider it, along with other information including information about controls *implemented by subservice organizations and user entities themselves*, when obtaining an understanding of user entities' information and communication systems relevant to financial reporting.

[A statement such as the following is added to management's statement when the service organization uses a subservice organization, the carve-out method is used to present the subservice organization, and complementary subservice organization controls are required to meet the control objectives.]

XYZ Service Organization uses a subservice organization to [identify the function or service provided by the subservice organization]. The description includes only the control objectives and related controls of XYZ Service Organization and excludes the control objectives and related controls of the subservice organization(s). The description also indicates that certain control objectives specified in the description can be achieved only if complementary subservice organization controls assumed in the design of our controls are suitably designed and operating effectively, along with the related controls. The description does not extend to controls of the subservice organization.

[A statement such as the following is added to management's statement when complementary user entity controls are required to meet the control objectives.]

The description indicates that certain control objectives specified in the description can be achieved only if complementary user entity controls assumed in the design of XYZ Service Organization's controls are suitably designed and operating effectively, along with related controls at the service organization. The description does not extend to controls of the user entities.

We confirm, to the best of our knowledge and belief, that:

- (a) The description fairly presents the [type or name of] system made available to user entities of the system as of [date] for processing their transactions [or identification of the function performed by the system] as it relates to controls that are likely to be relevant to user entities' internal control over financial reporting. The criteria we used in making this statement were that the description:
 - (i) Presents how the system made available to user entities of the system was designed and implemented to process relevant transactions, including, if applicable:
 1. The types of services provided, including, as appropriate, the classes of transactions processed;

2. The procedures, within both automated and manual systems, by which those services are provided, including, as appropriate, procedures by which transactions are initiated, authorized, recorded, processed, corrected as necessary, and transferred to the reports and other information prepared to user entities of the system;
 3. The information used in the performance of the procedures including, if applicable, related accounting records, whether electronic or manual, and supporting information involved in initiating, authorizing, recording, processing, and reporting transactions; this includes the correction of incorrect information and how information is transferred to the reports and other information prepared for user entities;
 4. How the system captures and addresses significant events and conditions, other than transactions;
 5. The process used to prepare reports or other information for user entities;
 6. Services performed by a subservice organization, if any, including whether the carve-out method or the inclusive method has been used in relation to them;
 7. The specified control objectives and controls designed to achieve those objectives, including, as applicable, complementary user entity controls and complementary subservice organization controls assumed in the design of the service organization's controls; and
 8. Other aspects of our control environment, risk assessment process, information and communications (including the related business processes), control activities, and monitoring activities that are relevant to the services provided.
- (ii) Does not omit or distort information relevant to the service organization's system, while acknowledging that the description is prepared to meet the common needs of a broad range of user entities of the system and their user auditors, and may not, therefore, include every aspect of the [type or name of] system that each individual user entity of the system and its auditor may consider important in its own particular environment.
- (b) The controls related to the control objectives stated in the description were suitably designed as of [date] to achieve those control objectives *if subservice organizations and user entities applied the complementary controls assumed in the design of XYZ Service Organization's controls as of [date]*. The criteria we used in making this statement were that:
- (i) The risks that threaten the achievement of the control objectives stated in the description have been identified by management of the service organization.
 - (ii) The controls identified in the description would, if operating effectively, provide reasonable assurance that those risks would not prevent the control objectives stated in the description from being achieved.
-

Footnotes

1. . [CAS 402, Audit Considerations Relating to an Entity Using a Service Organization](#)
2. . [CSAE 3000, Attestation Engagements Other than Audits or Reviews of Historical Financial Information](#)
3. CSAE 3000, paragraph [C12C\(a\)\(ii\)a](#)
4. CSAE 3000, paragraph [24](#).
5. CSAE 3000, paragraph [29](#).
6. CSAE 3000, paragraph [C48R](#)
7. CSAE 3000, paragraph [61](#)
8. CSAE 3000, paragraphs [53-55](#).
9. CSAE 3000, paragraphs [56-57](#)
10. CSAE 3000, paragraphs [56-57](#)
11. CSAE 3000, paragraphs [56-57](#)
12. CSAE 3000, paragraphs [56-57](#)
13. CSAE 3000, paragraph [62](#)
14. [CSQM 1, Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements](#)
15. CSAE 3000, paragraph [78](#)
16. CSAE 3000, paragraph [C69](#)
17. . [CSRS 4400, Agreed-Upon Procedures Engagements](#)
18. CSAE 3000, paragraph [24](#)

19. CSAE 3000, paragraph [A40](#)
 20. CSAE 3000, paragraph [A50](#)
 21. CSAE 3000, paragraph [C12\(y\)](#)
 22. . [CAS 250, Consideration of Laws and Regulations in an Audit of Financial Statements](#)
 23. . [CAS 610, Using the Work of Internal Auditors](#)
 24. CSAE 3000, paragraph [C69](#)
 25. CSAE 3000, paragraphs [A162](#)-A188
 26. CSAE 3000, paragraph [C69\(f\)](#)
 1. May also be "Report of Independent Service Auditors."
 2. May also be "Report of Independent Service Auditors."
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