

BASIS FOR CONCLUSIONS CANADIAN STANDARD ON ASSURANCE ENGAGEMENTS (CSAE) 3416, Reporting on Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting

September 2019

This Basis for Conclusions has been prepared by staff of the Auditing and Assurance Standards Board (AASB). It relates to, but does not form part of, Canadian Standard on Assurance Engagements (CSAE) [3416, Reporting on Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting](#).

Purpose of this Basis for Conclusions

This Basis for Conclusions provides a summary of the AASB's objectives in revising [CSAE 3416](#), the public exposure and approval steps for this project and how the AASB dealt with any significant matters arising from comments received in response to its Exposure Draft. This information is set out below.

Background

When [CSAE 3416](#) was issued in 2010, stakeholders indicated that the marketplace for these types of engagements is highly integrated between Canada and the United States. The AASB decided to align the Canadian standard with the equivalent American Institute of Certified Public Accountants (AICPA) standard (AT Section 801.1).

In April 2016, the AICPA issued AT-C Section 320.2 (included in the AICPA's release of Statement on Standards for Attestation Engagements No. 18) to replace AT Section 801. The new standard was effective for service auditors' reports dated on or after May 1, 2017. Discussions with stakeholders indicate support for continued alignment of [CSAE 3416](#) with the AICPA standard. As a result, in November 2016, the AASB approved a project to consider revisions to CSAE 3416.

In December 2018, the AASB issued an Exposure Draft of revised [CSAE 3416](#) (ED-3416). The ED-3416 was developed with the assistance of the Service Organizations Controls Reporting Task Force, which consists of representatives from five international public accounting firms in addition to the Chair who is a Board member. The Board received four written responses to ED-3416. In addition, stakeholders were invited to two virtual consultation sessions that were open to all.

The AASB approved the revised [CSAE 3416](#) at its May 2019 meeting. The Auditing and Assurance Standards Oversight Council confirmed that the Board followed due process in developing CSAE 3416 prior to its issuance in the CPA Canada Handbook – Assurance.

AASB's Objectives in Revising CSAE 3416

The AASB's objectives in revising and replacing [CSAE 3416](#) are to:

- align [CSAE 3416](#) with the AICPA's new AT-C Section 320;
- align [CSAE 3416](#) with Canadian assurance standard [CSAE 3000](#) 3; and
- continue to align [CSAE 3416](#) in most respects with International Standard on Assurance Engagements (ISAE) 3402. 4

The public interest considerations in revising [CSAE 3416](#) include:

- developing a high-quality standard that will meet practitioners' needs; and
- improving the quality of the standard and meet the Canadian marketplace's needs by ensuring consistency with the AICPA's AT-C Section 320.

Alignment with AT-C Section 320

While the AASB wanted to limit circumstances where [CSAE 3416](#) substantively differed from AT-C Section 320, there are some instances where the Board concluded that additional requirements, beyond those in standalone AT-C Section 320, were necessary to ensure the requirements were sufficient for service auditors performing and user auditors relying on these engagements.

The additional requirements include:

- **Sampling** – AT-C Section 320 does not include any sampling requirements on the basis that the requirements in AT-C Sections 105 and 205.5 are sufficient. As [CSAE 3000](#) does not have any specific requirements dealing with sampling, the extant requirements from [CSAE 3416](#), which are derived from Canadian Auditing Standard ([CAS](#)) 530.6 continue to be included in paragraph 34 of CSAE 3416.
- **Identified or suspected instances of non-compliance with laws and regulations** – AT-C Section 320 requires the service auditor who becomes aware of any identified incidents of non-compliance with laws and regulations

to determine the effect on the engagement. 7 However, [CAS 250](#) 8 requires that an auditor determine the effect of both identified and suspected instances of non-compliance. Given the primary users of [CSAE 3416](#) reports are user auditors who are required to comply with the CASS, paragraph 37 of CSAE 3416 requires the service auditor to consider the effect of both identified and suspected instances of non-compliance. A similar addition was made to paragraph 41(b)(i) of CSAE 3416 dealing with written representations from management.

- **Using the work of internal audit function** – AT-C Section 320 removed all requirements dealing with the use of internal audit, on the basis that the requirements in AT-C 105 / 205 are sufficient. While [CSAE 3000](#) includes several requirements dealing with internal audit that were previously included in extant [CSAE 3416](#), some, in particular those around the use of direct assistance, are not addressed in CSAE 3000. Accordingly, paragraphs 39-40 of CSAE 3416 retain extant requirements dealing with the use of internal audit.
- **Written representations** – Paragraph 41 of CSAE 3416 retains certain representations from the extant standard that are no longer included in AT-C Section 320 and are not addressed by [CSAE 3000](#).
- **Extant terminology differences** – [CSAE 3416](#) continues to include certain terminology differences, consistent with those in extant CSAE 3416, when compared to AT-C Section 320. For example, references to "examination / examine" were removed and the term "management's assertion" was replaced with "management's statement".

The AASB recognizes the importance of non-authoritative guidance identifying circumstances where [CSAE 3416](#) substantively differs from AT-C Section 320 for those service auditors required to report under both CSAE 3416 and AT-C Section 320. This is consistent with stakeholders' responses to ED-3416. These differences will therefore be highlighted in an appendix included in CPA Canada's non-authoritative SOC 1 Guide.

Alignment with CSAE 3000

The following amendments have been made to [CSAE 3416](#) to better align with [CSAE 3000](#):

- **References to "audit" versus "reasonable assurance"** – At the time [CSAE 3000](#) was developed, the AASB decided to remove references to "audit" and "review" in the CSAEs, referring to "reasonable assurance" and "limited assurance" instead. The view was that the term "audit" in the Handbook should be limited to engagements to express an opinion on historical financial information. [CSAE 3416](#) does not use the term "audit". 9
- **References to "errors and omissions" versus "misstatements"** – Consistent with the approach taken in AT-C Section 320, these references have been amended to "misstatements". This is consistent with language used in [CSAE 3000](#).
- **Removal of unnecessary duplication** – Consistent with the approach taken in AT-C Section 320, topics that are not unique to [CSAE 3416](#) engagements and have been appropriately addressed in [CSAE 3000](#) have been removed from CSAE 3416 to avoid unnecessary duplication. These topics are listed in paragraph 3 of CSAE 3416.

Alignment with ISAE 3402

The AICPA's *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting* (SOC 1(R)) – Guide includes an appendix that highlights what the AICPA staff believe are the substantive differences between AT-C Section 320 and ISAE 3402. Except for the service auditor's report itself, all the other differences relate to requirements in AT-C Section 320 that go beyond those in ISAE 3402. Since [CSAE 3416](#) aligns closely with AT-C Section 320, the AASB believes that CSAE 3416 complies with ISAE 3402 in most respects.

The reporting requirements in ISAE 3402 that are not addressed in AT-C Section 320 are existing differences that were addressed in extant [CSAE 3416](#) and continue to be addressed in CSAE 3416. These differences relate to reporting requirements to state that the service auditor complied with:

- ISQC 1 ([CSQC 1](#) 10); and
- independence and other ethical requirements of relevant rules of conduct / code of ethics.

The AASB recognizes the importance of non-authoritative guidance identifying these differences for those service auditors required to report under both [CSAE 3416](#) and ISAE 3402. This is consistent with stakeholders' responses to ED-3416. These differences will therefore be highlighted in appendices included in CPA Canada's non-authoritative SOC 1 Guide.

Significant Matters Arising from Comments in Response to ED-CSAE 3416

There were no significant matters raised on exposure.

Other Matters

None.

List of Respondents to the Exposure Draft

BDO Canada LLP

MNP LLP

RSM Canada LLP

Provincial Auditor of Saskatchewan

Summary of Stakeholders Consulted

MNP LLP

Freelandt Caldwell Reilly LLP

Footnotes

1. AT Section 801, *Reporting on Controls at a Service Organization*
 2. AT-C Section 320, *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting*
 3. [CSAE 3000](#), *Attestation Engagements Other than Audits or Reviews of Historical Financial Information*
 4. ISAE 3402, *Assurance Reports on Controls at a Service Organization*
 5. AT-C Section 105, *Concepts Common to All Attestation Engagements*, and AT-C Section 205, *Examination Engagements*
 6. [CAS 530](#), *Audit Sampling*
 7. AT-C Section 320, paragraph 34
 8. . [CAS 250](#), *Consideration of Laws and Regulations in an Audit of Financial Statements*
 9. . [CSAE 3416](#) does not permit the issuance of limited assurance reports.
 10. Canadian Standard on Quality Control ([CSQC](#)) 1, *Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements*
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