

# AUDITING AND ASSURANCE BULLETIN

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FOR PUBLIC ACCOUNTANTS PERFORMING AUDIT AND REVIEW ENGAGEMENTS

This *Auditing and Assurance Bulletin* was prepared by Auditing and Assurance staff. It is not issued under the authority of the Auditing and Assurance Standards Board (AASB).

The Bulletin is intended to help raise practitioners' awareness in a timely manner of significant new or emerging issues or other noteworthy circumstances related to engagements addressed by the AASB pronouncements. It is also meant to direct practitioners to relevant requirements, application and other explanatory material in the CPA Canada Handbook—Assurance.



## Reporting on Controls at a Service Organization — Bridging the Gap Between Canadian and Revised U.S. Standards

In 2010, the Canadian standard on reporting on controls at a service organization was issued. At that time, it aligned with the equivalent U.S. standards. But for service auditor's reports dated on or after May 1, 2017, the U.S. standards are changing.

Staff prepared this Bulletin to assist stakeholders during the period while the Canadian and U.S. standards are not aligned.

The Bulletin explains changes made to the U.S. standards and highlights key differences between the Canadian and revised U.S. standards, as well as implications for:

- service audits conducted in accordance with multiple standards (i.e., Canadian and U.S.) or with the revised U.S. standards;
- service audits previously conducted in accordance with the Canadian standard that will be conducted in accordance with the revised U.S. standards; and
- the issuance or use of a service auditor's report conducted in accordance with the Canadian standard only, if any.

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This Bulletin will be of interest to service and user auditors and their clients, particularly for engagements to report on controls at a service organization that are intended to comply with both Canadian and revised U.S. standards.

## Standards affected

In 2010, the Auditing and Assurance Standards Board (AASB) aligned Canadian Standard on Assurance Engagements (CSAE) 3416, *Reporting on Controls at a Service Organization*, with Statement on Standards for Attestation Engagements (SSAE 16), *Reporting on Controls at a Service Organization*, issued by the American Institute of Certified Public Accountants.

In April 2016, the American Institute of Certified Public Accountants issued a new SSAE, which contains AT-C Section 320, *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting*, to replace SSAE 16. This standard is effective for service auditors' reports dated on or after May 1, 2017.

AT-C Section 320 is part of the package of standards SSAE 18, *Attestation Standards: Clarification and Recodification*, that resulted in some of the comparable requirements in SSAE 16 being repackaged into the umbrella standard AT-C Section 205, *Examination Engagements*.

In November 2016, the AASB approved a project to consider whether revisions should be made to CSAE 3416 as a result of the issuance of AT-C Section 320. As a part of the project, the AASB will also consider whether revisions to CSAE 3416 should be made to align with the International Standard on Assurance Engagements, (ISAE) 3402, *Assurance Reports on Controls at a Service Organization*. Originally, CSAE 3416 was not drafted to specifically align with ISAE 3402. However, it was aligned in most respects.

Until changes are made, the Canadian standard is unaffected.

## Major changes in the U.S. standards

- AT-C Section 320 introduces and defines the term “complementary subservice organization controls”. The new term clarifies that these controls are assumed to 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. It replaces the term “controls at a subservice organization”, which was aligned to the same term used in CSAE 3416.
- AT-C Section 320 revises the definition of “complementary user entity controls” to indicate that such controls are necessary to achieve the control objectives stated in management’s description of the service organization’s system. The definition of complementary user entity controls in CSAE 3416 includes user entity controls that are and are not necessary to achieve the control objective.
- In AT-C Section 320, the qualifier of “in all material respects” is removed from management’s assertion in the definitions of both type 1 and type 2 reports. This could be interpreted by a user of the AT-C Section 320 report as a higher level of assurance from management.
- AT-C Section 320 contains a new requirement for the service auditor to read internal audit reports and regulatory examinations that relate to the services provided to user entities and the scope of the engagement. The purpose is to consider the nature and extent of the procedures performed and the related findings as part of the risk assessment in determining the nature, timing and extent of tests.
- AT-C Section 320 contains a new requirement for the service auditor, using information produced by the service organization, to evaluate whether it is sufficiently reliable for the service auditor’s purposes.

- AT-C Section 320 requires additional written management representations. There are also differences with respect to the actions the service auditor is required to take when management refuses to provide written representations.
- AT-C Section 320 requires an additional statement in the service auditor's opinion when the application of complementary subservice organization controls is necessary for the service organization to achieve the related control objectives stated in management's description of the service organization's system.
- AT-C Section 205 requires the auditor to apply other appropriate procedures to obtain evidence regarding significant events subsequent to the period covered by the examination engagement up to the date of the practitioner's report.

Refer to the [Appendix](#), which describes the differences in requirements between the Canadian and revised U.S. standards.

### **Service audits conducted in accordance with multiple standards (i.e., Canadian and U.S.)**

In Canada's market, it is common for a service organization to service both Canadian and U.S. clients. A service auditor is often engaged to report in accordance with both Canadian and U.S. standards. The revised U.S. standards include requirements that are in addition to what was included in SSAE 16. Therefore, engagements that are in compliance with the revised U.S. standards should comply with the Canadian standard, but those engagements that comply with the Canadian standard would only comply with the revised U.S. standards if the additional requirements in the U.S. standards are addressed.

Although there are new requirements in the revised U.S. standards, in many cases, service auditors will continue to be able to conduct the engagement and report in a manner that complies with both Canadian and revised U.S. standards.

User auditors who are receiving reports in accordance with both Canadian and revised U.S. standards will note some small differences in the audit report wording. However, the report should continue to be appropriate for their purposes. In determining whether the report is appropriate for their purposes, user auditors should refer to Canadian Auditing Standard (CAS) 402, *Audit Considerations Relating to an Entity Using a Service Organization*, for information on their responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organizations.

### **Service audits previously conducted in accordance with the Canadian standard that will be conducted in accordance with the revised U.S. standards**

Service auditors need to apply the revised U.S. standards in their engagement. They may find the information in the "[Major changes in the U.S. standards](#)" section above helpful in understanding key differences from the Canadian standard.

User auditors who previously received a report in accordance with the Canadian standard but now receive a report in accordance with the revised U.S. standards will notice the report is different. However, the report should be appropriate for their purposes as the revised U.S. requirements are at least as robust as the Canadian requirements. User auditors should refer to CAS 402 for information on their responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organizations.

## Service audits continuing to be conducted in accordance with the U.S. standards

Service auditors who previously issued a report on controls at a service organization in accordance with SSAE 16, and were working on the basis that the U.S. standards were aligned with the Canadian standard, should be aware that the U.S standards have changed. There are some small differences in the audit report wording to note. However, service auditors may find there is additional work effort required to support that report depending on their previous practices. Refer to the "[Major changes in the U.S. standards](#)".

User auditors who are receiving reports conducted in accordance with the U.S. standards will note some small differences in the audit report wording. However, the report should be appropriate for their purposes. User auditors should refer to CAS 402 for information on their responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organizations.

## Keep up to date on this project

Keep up to date via the [Reporting on Controls at a Service Organization](#) project page.

## Conclusion

There are no implications for those issuing or using reports under the related Canadian-only standard at this time.

For auditors issuing reports under the revised U.S. standards (or under both Canadian and revised U.S. standards), professional judgment is required in determining the impact on the service organization's statement and the auditor's report thereon.

## APPENDIX

Key differences in requirements of Canadian and revised U.S. standards relating to reporting on controls at a service organization

Canadian standards	Revised U.S. standards
<b>Complementary user entity controls</b>	
Paragraph 7(b) of CSAE 3416 – Includes user entity controls that are necessary to achieve the control objectives stated in management’s description of the system as well as those that are not in the definition of complementary user entity controls.	Paragraph .08 of the clarified attestation standard AT-C Section 320 – Revises the definition to indicate that such controls are limited to those that are necessary to achieve the control objectives stated in management’s description of the service organization.
<b>Controls at a subservice organization</b>	
Paragraph 7(e) of CSAE 3416 – Refers to policies and procedures at a subservice organization likely to be relevant to internal control over financial reporting of user entities of the service organization.	Paragraph .08 of AT-C Section 320 – Removed the definition of “controls at a subservice organization” and replaced it with newly defined “complementary subservices organization controls”.  These controls are assumed to 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.
<b>Type 1<sup>1</sup> and type 2<sup>2</sup> reports</b>	
Paragraphs 7(i)(ii) and 7(j)(ii) of CSAE 3416 – Refer to “in all material respects” in the description of management’s assertion for both type 1 and type 2 reports.	Paragraph .08 of AT-C Section 320 – Removes the qualifier “in all material respects” from management’s assertion.
<b>Procedures over internal audit and regulatory examination reports</b>	
No equivalent requirement.	Paragraph .23 of AT-C Section 320 – Requires the service auditor to read the reports of internal audit and regulatory examinations that relate to the services provided to user entities and the scope of the engagement.  The purpose of this is to consider them as part of the risk assessment in determining the nature, timing and extent of tests.
<b>Evaluating the reliability of information produced by the service organization</b>	
No equivalent requirement.	Paragraph .30 of AT-C Section 320 – Refers to AT-C Section 205, requiring the service auditor to evaluate whether information produced by the service organization is sufficiently reliable for the service auditor’s purposes by: <ul style="list-style-type: none"> <li>• obtaining evidence about its accuracy and completeness; and</li> <li>• evaluating whether the information is sufficiently precise and detailed.</li> </ul>
<b>Using the work of the internal audit function</b>	
Paragraphs 28-35 of CSAE 3416 – Include requirements on: <ul style="list-style-type: none"> <li>• obtaining an understanding of the internal audit function;</li> <li>• planning to use their work;</li> <li>• using the work of the internal audit functions;</li> <li>• effect on the service auditor’s report; and</li> <li>• direct assistance.</li> </ul>	Paragraphs .39-.44 of AT-C Section 205 – Revise and relocate the requirements relating to the planning and use of internal audit and direct assistance from the standard on reporting on controls at a service organization to this overall umbrella standard.  The revised requirements provide more guidance on direct assistance and preventing undue use of the internal audit function in obtaining audit evidence, while containing a more generic requirement on the adequacy of the work of internal audit for the purpose of the examination engagement.

<sup>1</sup> Reports on management’s description of a service organization’s system and the suitability of the design of controls.

<sup>2</sup> Reports on management’s description of a service organization’s system and the suitability of the design and operating effectiveness of controls.

Canadian standards	Revised U.S. standards
<b>Written representations</b>	
<p>Paragraph 56 of CSAE 3000, <i>Attestation Engagements Other than Audits or Reviews of Historical Financial Information</i> – Outlines requirements for written representations.</p>	<p>Paragraph .50 of AT-C Section 205 – Requires the auditor to request certain additional written representations from management.</p> <p>The representations should:</p> <ul style="list-style-type: none"> <li>• state that all known matters contradicting the subject matter or assertion and any communication from regulatory agencies or others affecting the subject matter or assertion have been disclosed to the practitioner, including communications received between the end of the period addressed in the written assertion and the date of the practitioner's report;</li> <li>• acknowledge responsibility for: <ul style="list-style-type: none"> <li>— the subject matter and the assertion;</li> <li>— selecting the criteria, when applicable; and</li> <li>— determining that such criteria are appropriate for the responsible party's purposes.</li> </ul> </li> <li>• state that any known events subsequent to the period (or point in time) of the subject matter being reported on that would have a material effect on the subject matter or assertion have been disclosed to the practitioner;</li> <li>• if applicable, state that the responsible party believes the effects of uncorrected misstatements are immaterial, individually and in the aggregate, to the subject matter; and</li> <li>• if applicable, state that significant assumptions used in making any material estimates are reasonable.</li> </ul>
<p>Paragraph 39 of CSAE 3416 – Requires the service auditor to disclaim an opinion or withdraw from the engagement when management refuses to provide the required written representations.</p>	<p>Paragraphs .55-.56 of AT-C Section 205 – Includes differences with respect to the actions the service auditor is required to take when management refuses to provide the required written representations.</p> <p>This 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 where possible under applicable law or regulation.</p>
<b>Subsequent events</b>	
<p>There are requirements relating to subsequent events in CSAE 3000, but there are no requirements that are equivalent to the specific items listed in paragraph .48 of AT-C Section 205.</p>	<p>Paragraph .48 of AT-C Section 205 – Requires the practitioner to:</p> <ul style="list-style-type: none"> <li>• inquire with the responsible party, and if different, the engaging party;</li> <li>• identify significant events that could have a significant effect on the subject matter or assertion;</li> <li>• apply other appropriate procedures to obtain evidence regarding such events; and</li> <li>• take appropriate action should the event not be adequately disclosed by the responsible party.</li> </ul>
<b>Service auditor's report</b>	
<p>Paragraphs 52 and 53 of CSAE 3416 – Include the minimum requirements to be included in a type 1 or type 2 report.</p> <p>No equivalent requirements to the specific items included in paragraphs .40-.41 of AT-C Section 320.</p>	<p>Paragraphs .40-.41 of AT-C Section 320 – Revise the service auditor's reporting requirements to:</p> <ul style="list-style-type: none"> <li>• conform with the requirements for an examination report in AT-C Section 205; and</li> <li>• incorporate a statement regarding the consideration of complementary subservice organization controls, if applicable.</li> </ul>

Canadian standards	Revised U.S. standards
<b>Compliance with CSQC 1 included in the service auditor's report</b>	
<p>Paragraphs 52(g) and 53(g) of CSAE 3416 – Requires that the auditor's report include a statement that the firm of which the practitioner is a member complies with CSQC 1, <i>Quality Control for Firms that Perform Audits and Reviews of Financial Statements, and Other Assurance Engagements</i>.</p>	<p>No equivalent requirement.</p> <p>However, paragraph 9 of AT-C Section 105, <i>Concepts Common to All Attestation Engagements</i>, requires the practitioner to implement quality control procedures at the engagement level that provide the practitioner with reasonable assurance that the attestation engagement complies with professional standards and applicable legal and regulatory requirements.</p>
<b>Compliance with relevant ethical requirements included in the service auditor's report</b>	
<p>Paragraphs 52(h) and 53(h) of CSAE 3416 – Requires that the auditor's report include a statement that the practitioner complied with the independence and other ethical requirements of relevant rules of professional conduct / code of ethics as applicable.</p>	<p>No equivalent paragraph.</p> <p>However, paragraph 27 of AT-C Section 105 requires that the practitioner only accept an attestation engagement when they have no reason to believe that relevant ethical requirement, including independence, will not be satisfied.</p>
<b>Terms of engagement</b>	
<p>Paragraph 27 of CSAE 3000– Requires that the terms of the engagement be specified in sufficient detail in some written form.</p>	<p>Paragraph .08 of AT-C Section 205 – Includes a specific list of agreed-upon terms to be included in the engagement letter or other suitable form of written agreement.</p>

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