SAE 3402 Assurance Reports on Controls at Service Organisation

(SO – Service Organisation; UE – User Entity; SSO – Sub Service Organization)

Effective Date	Applicable for Service Auditors' Assurance Reports covering periods ending on or after 1.4.2011. **[Para 7]**
Relevance [Para A.1]	1. Internal control is a process designed to provide reasonable assurance regarding the achievement of objectives related to the reliability of Financial Reporting, effectiveness and efficiency of Operations and compliance with applicable Laws and Regulations. 2. Controls related to a SO's operations and compliance objectives may be relevant to a UE's internal control as it relates to Financial Reporting. 3. 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. 4. For example, a payroll processing SO's controls related to the timely remittance of payroll deductions to Government Authorities may be relevant to a UE as late remittances could incur interest and penalties that would result in a liability for the UE. Similarly, a SO's controls over the acceptability of investment transactions from a regulatory perspective may be considered relevant to a UE's presentation and disclosure of transactions and account balances in its Financial Statements. 5. The determination of whether controls at a SO related to operations and compliance are likely to be relevant to user entities' internal control is a matter of professional judgment, having regard to the control objectives set by the SO and the suitability of the criteria.
Scope [Para 1]	1. This SAE deals with engagements undertaken by a Professional Accountant in public practice to provide a report for use by UE and their Auditors on the controls at a SO. Thus it is a service to UE that is likely to be relevant to user entities' internal control as it relates to Financial Reporting. 2. It complements SA 402, in that reports prepared in accordance with this SAE are capable of providing appropriate evidence under SA 402.
Auditor's Objective [Para 8]	To obtain reasonable assurance & to report, in all material respects, based on suitable criteria: 1. The SO's **description** of its system fairly presents the system as designed and implemented throughout the specified period (or in the case of a Type 1 report, as at a specified date) 2. The controls related to the control objectives stated in the SO's description of its system were **suitably designed** throughout the specified period (or in case of a Type 1 report, as at a specified date) 3. Where included in the scope of the engagement, the controls **operated effectively** to provide reasonable assurance that the control objectives stated in the SO's description of its system were achieved throughout the specified period.
Framework for Assurance Engagement [Para 2]	The "Framework for Assurance Engagements" states that an Assurance Engagement may be– 1. Either a "Reasonable Assurance" engagement or a "Limited Assurance" engagement 2. Either an "Assertion–Based" engagement or a "Direct Reporting" engagement and 3. the assurance conclusion for an "Assertion–Based" engagement can be worded either in terms of the responsible party's assertion or directly in terms of the subject matter and the criteria. This SAE only deals with "Assertion–Based" engagements that convey reasonable assurance, with the assurance conclusion worded directly in terms of the subject matter and the criteria.
Exclusions (Para 3, A2, 4)	1. This SAE applies only when the SO is responsible for, or otherwise able to make an assertion about, the suitable design of controls. 2. This SAE does not deal with the following kinds of Assurance Engagements– (a) **Not applicable to report on Operating Effectiveness:** • Sometimes, it is possible that the system that is operated by the SO could be defined by the UE. Further it is also possible that the SO's operations could be defined by the UE, i.e, stipulated in a contract between the UE and SO. • In such cases, the SO may not be able to conclude that the system is suitably designed. • Absence of an assertion with respect to the suitability of design will preclude the Service Auditor from concluding that the controls provide reasonable assurance that the control objectives have been met. Hence he cannot comment on the operating effectiveness of controls. • However, the SO Auditor can report only on whether controls at a SO operated as described (b) To report only on controls at SO other than those related to a service that is likely to be relevant to UE's internal control relating to Financial Reporting (for example, controls that affect UE's production or Quality Control). Alternatively those assignments can be accepted as an "agreed–upon procedures engagement", which is covered by separate Standards on Related Services. (c) To provide reports on other areas such as – A report on a UE's transactions or balances maintained by a SO or An agreed–upon procedures report on controls at a SO.

Definitions [Para 9, A3, A4]

Carve–out method	1. It is a method of dealing with the services provided by a SSO. 2. In this case, the SO's description of its system includes the nature of the services provided by a SSO. However SSO's relevant control objectives and related controls are excluded from the SO's description of its system and hence excluded from the scope of Service Auditor's engagement. 3. However this method of reporting includes reporting on the controls at the SO to monitor the effectiveness of controls at the SSO (for ex., SO may review the assurance report on controls at the SSO. This would be subject to Service Auditor's review).
Control objective	The aim or purpose of a particular aspect of control. Control objectives relate to risks that controls seek to mitigate.
Controls at the SO	1. These are the **controls over the achievement of a control objective** that is covered by the Service Auditor's assurance report. 2. It includes aspects of UE' Information Systems maintained by the SO, and may also include aspects of one or more of the other components of internal control at a SO (for ex., aspects of a SO's Control Environment, Monitoring, & control activities relate to the services provided). 3. It does not, however, include controls at a SO that are not related to the achievement of the control objectives stated in the SO's description of its system (for ex., controls related to the preparation of the SO's own Financial Statements).
Controls at a SSO	Controls at a SSO to provide reasonable assurance about the achievement of a control objective.
Criteria	Benchmarks used to evaluate or measure a subject matter including, where relevant, benchmarks for presentation and disclosure.
Inclusive method	1. It is a method of dealing with the services provided by a SSO. 2. In this case, the SO's description of its system includes the nature of the services provided by a SSO, and that SSO's relevant control objectives and related controls are included in the SO's description of its system and in the scope of the Service Auditor's engagement. 3. The requirements in this SAE also apply to the services provided by the SSO, including obtaining agreement regarding the responsibility of SSO (as specified in para 13(b)(i)–(v)) – as applied to the SSO rather than the SO. 4. Performing procedures at the SSO entails coordination & communication between the SO, the SSO, and the Service Auditor. 5. The method is feasible only if the SO and the SSO are related, or if the contract between the SO and the SSO provides for its use.
Internal Audit Function	An appraisal activity established or provided as a service to the SO. Its functions include examining, evaluating and monitoring the adequacy and effectiveness of Internal Control.
Internal Auditors	Those individuals who perform the activities of the internal audit function. Internal auditors may belong to an Internal Audit Department or equivalent function.
Report on the Description and Design of Controls at a SO (referred to as "Type 1 Report") – [Para 9(j)]	A report that comprises of: 1. The SO's description of its system; 2. A written assertion by the SO that, in all material respects, and based on suitable criteria: (a) The description fairly presents the SO's system as designed & implemented as at the specified date (b) The controls related to the control objectives stated in the SO's description of its system were suitably designed as at the specified date 3. A Service Auditor's assurance report that conveys reasonable assurance about the matters in (2) above.
Report on the Description, Design and Operating Effectiveness of controls at SO (referred to as "Type 2 Report") – [Para 9(k)]	A report that comprises: 1. The SO's description of its system. 2. A written assertion by the SO that, in all material respects, and based on suitable criteria: (a) The description fairly presents the SO's system as designed & implemented throughout the specified period; (b) The controls related to the control objectives stated in the SO's description of its system were suitably designed throughout the specified period and (c) The controls related to the control objectives stated in the SO's description of its system operated effectively throughout the specified period and 3. A service auditor's assurance report that: (a) Conveys reasonable assurance about the matters in (2) above and (b) Includes a description of the Tests of Controls and the results thereof.

SO's system (or the system)	The policies & procedures designed & implemented by the SO to provide UE with the services covered by the service auditor's assurance report. The SO's description of its system includes identification of – the services covered, the period (or in the case of a type 1 report, the date), to which the description relates, control objectives and related controls.
SO's assertion	The written assertion about the matters referred to in Para 9(k)(2) (or Para 9(j)(2) for Type 1 reports)
Test of controls	A procedure designed to evaluate the operating effectiveness of controls in achieving the control objectives stated in the SO's description of its system.

The following definitions in this Standard are same as that of those given in SA 402:

• Complementary UE controls	• Service Auditor	• User Auditor
• Service Organization	• Sub–service organization	• User Entity

Requirements of SAE 3402

The duties of a Professional Accountant under this SAE can be broadly classified into:
A. Preliminary Engagement Activities
B. Review of Controls and Engagement Activities
C. Reporting Responsibilities
D. Other Miscellaneous Responsibilities

A. Preliminary Engagement Activities

1. **Framework for Assurance Engagements** [Para 10]: The Service Auditor shall not represent compliance with this SAE unless he has complied with the requirements of this SAE and the requirements of "Framework for Assurance Engagements".

2. **Ethical Requirements** [Para 11, A.5]:
   (a) The Service Auditor shall comply with relevant Ethical Requirements (including those pertaining to Independence) relating to Assurance Engagements.
   (b) In this regard, it is to be noted that in performing an engagement in accordance with this SAE, the Code of Ethics of the ICAI **does not require** the Service Auditor **to be independent from each UE**.

3. **Management & those Charged with Governance** [Para 12, A.6]:
   (a) The Service Auditor shall determine the appropriate person(s) within the SO's Management or Governance Structure with whom to interact (for inquiry, for requesting representations, etc).
   (b) For this purpose, the Service Auditor shall consider the person(s) who have the appropriate responsibilities for & knowledge of the matters concerned. Identifying such personnel may require exercise of professional judgment.

4. **Preconditions for Acceptance** [Para 13, A.7 – A.9]:
   (a) Before agreeing to accept, or continue, an engagement the Service Auditor shall:
      (i) Determine whether:
         - The Service Auditor has the **capabilities & competence** to perform the engagement
         - The **criteria** to be applied by the SO to prepare the description of its system will be suitable and available to user entities and their auditors and
         - The **scope of the engagement** and the SO's description of its system will not be so limited that they are unlikely to be useful to UE and their auditors.
      (ii) Obtain the agreement of the SO that it acknowledges and understands its responsibility.

   (b) **Capabilities and Competence:** Service Auditor's capabilities and competence to perform the engagement shall depend on factors such as his knowledge of the relevant industry, an understanding of information technology and systems, experience in evaluating risks as they relate to the suitable design of controls and experience in the design and execution of tests of controls and the evaluation of the results.

   (c) **Responsibilities of SO's Management:** The Management of the SO is responsible for –
      (i) **System Description:** For the preparation of the description of its system, and accompanying SO's assertion (including the completeness, accuracy).
      (ii) For **presentation** of that description and assertion.
      (iii) To have a **reasonable basis** for the SO's assertion accompanying the description of its system.
      (iv) For stating in the SO's Assertion, the criteria, it used to prepare the description of its system
      (v) For stating in the description of its system:
         - The control objectives and,
         - Where they are specified by law or regulation, or another party (for example, a user group or a professional body), the party who specified them

(vi) For identifying the risks that threaten achievement of the control objectives stated in the description of its system, and designing and implementing controls to provide reasonable assurance that those risks will not prevent achievement of the control objectives stated in the description of its system, and therefore that the stated control objectives will be achieved

(vii) To provide the Service Auditor with:

- Access to all information, such as records, documentation and other matters, including service level agreements, of which the SO is aware that is relevant to the description of the SO's system and the accompanying SO's assertion
- Additional information that the Service Auditor may request from the SO for the purpose of the Assurance Engagement and
- Unrestricted access to persons within the SO from whom the Service Auditor determines it necessary to obtain evidence.

(d) **System Description & Assertion:** Refusal, by a SO, to provide a written assertion, subsequent to an agreement by the Service Auditor to accept, or continue, an Engagement, represents a scope limitation that causes the Service Auditor to withdraw from the Engagement. If law or regulation does not allow the Service Auditor to withdraw from the Engagement, the Service Auditor Disclaims an opinion.

(e) **Basis of Specific Assertion:**

(i) In the case of a Type 2 report, the SO's assertion includes a statement that the controls related to the control objectives stated in the SO's description of its system **operated effectively** throughout the specified period.

(ii) This assertion may be based on the SO's monitoring activities. Monitoring of controls is a process to assess the effectiveness of controls. It involves assessing the effectiveness of controls on a timely basis, identifying and reporting deficiencies to appropriate individuals within the SO, and taking necessary corrective actions.

(iii) The SO accomplishes such monitoring through ongoing activities, separate evaluations, or combination of both.

(iv) **Ongoing Activities:** The greater the degree and effectiveness of ongoing monitoring activities, the less need for separate evaluations. Ongoing monitoring activities are often built into the normal recurring activities of a SO and include regular Management and Supervisory activities.

(v) **Separate Evaluation:** Internal Auditors or Personnel performing similar functions may contribute to the monitoring of a SO's activities. Monitoring activities may also include using information communicated by external parties, such as Customer Complaints and Regulator comments, which may indicate problems or highlight areas in need of improvement.

(vi) The fact that the Service Auditor will report on the Operating effectiveness of controls is not a substitute for the SO's own processes to provide a reasonable basis for its Assertion.

5. **Acceptance of a Change in the Terms of the Engagement** [Para 14, A.11, A.12]: If the SO requests a change in the scope of the engagement before the completion of the engagement, the service auditor shall be satisfied that there is a reasonable justification for the change.

Examples - Reasonable Justification	Examples - Not a Resonable Justification
The request is made to exclude from the engagement a SSO when the SO cannot arrange for access by the Service Auditor, & the method used for dealing with the services provided by that SSO is changed from the Inclusive Method to the Carve–Out method.	(a) The request is made to exclude certain control objectives from the scope of the engagement because of the likelihood that the Service Auditor's opinion would be modified; (b) The SO will not provide the Service Auditor with a written assertion and the request is made to perform the engagement under Framework for Assurance Engagements.

6. **Assessing the Suitability of the Criteria** [Para 15 – 18, A.13 – A.15]:

(a) The Service Auditor, among other things, is required to assess the "Suitability of Criteria", and the "appropriateness of the Subject Matter" in relation to the Assertions made by the SO. "Subject Matter" would refer to the main area of assurance that the Service Auditor gives in his Assurance Report. "Criteria" refer to the basis on which the Service Auditor forms his opinion to comment on the "Subject Matter".

(b) **Subject Matter of Service Auditor's report:**

(i) For **Type 1 Reports** the Service Auditor expresses his opinion on the following:

- **Opinion about the Fair Presentation of the description of the SO's system):** The SO's system that is likely to be relevant to UE's internal control as it relates to Financial Reporting and is covered by the Service Auditor's Assurance report (The description is fairly presented if conditions in clause (d) below are complied with)
- **Opinion on suitability of design:** Assurance on suitability of the design of those controls that are necessary to achieve the control objectives stated in the SO's description of its system (The controls are suitably designed if conditions given in clause (e) below is satisfied)

(ii) For **Type 2 Reports** the Service Auditor expresses his opinion on the following:
- **Opinion about the Fair Presentation of the description of the SO's system:** The SO's system that is likely to be relevant to UE's internal control as it relates to Financial Reporting and is covered by the Service Auditor's Assurance report (The description is fairly presented if conditions in clause (d) below are complied with).
- **Opinion about suitability of design, and operating effectiveness:** Assurance on suitability of the design and operating effectiveness of those controls that are necessary to achieve the control objectives stated in the SO's description of its system (The controls are suitably designed and operating effectively if conditions given in clause (e) & (f) below are satisfied.)

(c) **Criteria:** SO's assertion could be **–**
(i) In preparing the description of its system,
(ii) In evaluating whether controls are suitably designed, and,
(iii) In evaluating whether controls are operating effectively (in the case of a type 2 report).

(d) **Suitability Criteria – In preparing description of the system:** The Service Auditor shall determine if the criteria encompass, at a minimum:
(i) Whether the description presents how the SO's system was designed & implemented, including, as appropriate:
- The types of services provided, including, as appropriate, classes of transactions processed.
- The procedures, within both Information Technology & manual systems, by which services are provided, including, as appropriate, procedures by which transactions are initiated, recorded, processed, corrected as necessary, and transferred to the reports and other information prepared for UE.
- The related records and supporting information, including, as appropriate, accounting records, supporting information and specific accounts that are used to initiate, record, process and report transactions. This includes the correction of incorrect information and how information is transferred to the reports and other information prepared for UE.
- How the SO's system deals with significant events and conditions, other than transactions.
- The process used to prepare reports and other information for UE.
- The specified control objectives and controls designed to achieve those objectives.
- Complementary UE controls contemplated in the design of the controls.
- Other aspects of the SO's control environment, risk assessment process, information system (including the related business processes) and communication, control activities and monitoring controls that are relevant to the services provided.

(ii) In the case of a Type 2 report, whether the description includes relevant details of changes to the SO's system during the period covered by the description.
(iii) Whether the description omits or distorts information relevant to the scope of the SO's system being described, while acknowledging that the description is prepared to meet the common needs of a broad range of User Entities and their Auditors and may not, therefore, include every aspect of the SO's system that each individual UE and its Auditor may consider important in its particular environment.

(e) **Suitability Criteria – In evaluating whether controls are suitably designed:** The Service Auditor shall determine if the criteria encompass, at a minimum, whether–
(i) The SO has identified the risks that threaten achievement of the control objectives stated in the description of its system and
(ii) The controls identified in that description would, if operated as described, provide reasonable assurance that those risks do not prevent the stated control objectives from being achieved.

(f) **Suitability Criteria – In evaluating whether controls are operating effectively:** The Service Auditor shall determine if the criteria encompass, at a minimum, whether the controls were consistently applied as designed throughout the specified period. This includes whether manual controls were applied by individuals who have the appropriate competence and authority.

B. Review of Controls and Engagement Activities

1. **Materiality [Para 19, A.16 – A.18]:**
(a) **Meaning:** In an engagement to report on controls at a SO, the concept of materiality **relates to the system** being reported on, **not the financial statements** of UE.
(b) **Materiality Perspective:** The concept of materiality takes into account that the service auditor's assurance report provides information about the SO'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 that system has been used.

(c) **Consideration:** The Service Auditor shall consider materiality with respect to –

Fair Presentation of the description	Suitability of the design of controls	Operating Effectiveness of controls (in the case of a Type 2 report)
to determine whether the SO's description of its system is fairly presented in all material respects	whether controls at the SO are suitably designed in all material respects	It includes the consideration of both Quantitative & Qualitative factors, for ex., – the tolerable rate & observed rate of deviation (a Quantitative matter), & the nature & cause of any observed deviation (a Qualitative matter).
It includes primarily the consideration of qualitative factors, for ex:– (a) whether the description includes the significant aspects of processing significant transactions. (b) whether the description omits or distorts relevant information. (c) the ability of controls, as designed, to provide reasonable assurance that control objectives would be achieved.		

(d) **Non Applicability:**

(i) The concept of Materiality is not applied when disclosing, in the description of the Tests of Controls, the results of those tests where deviations have been identified.

(ii) This is because, in the particular circumstances of a specific UE 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.

(iii) 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 UE's Financial Statements.

2. **Obtaining an Understanding of the SO's System** [Para 20, A.19, A.20]: The Service Auditor shall obtain an understanding of the SO's system, including controls that are included in the scope of the engagement.

Need	Procedures
This will assists the Service Auditor in: (a) Identifying the boundaries of that system, and how it interfaces with other systems. (b) Assessing whether the SO's description fairly presents the system that has been designed & implemented. (c) Determining which controls are necessary to achieve the objectives stated in the SO's description of its system. (d) Assessing whether controls were suitably designed.	The Service Auditor's procedures to obtain this understanding may include: (a) Inquiring of those within the SO who, in the service auditor's judgment, may have relevant information. (b) Observing operations & inspecting documents, reports, printed & electronic records of transaction processing. (c) Inspecting a selection of agreements between the SO and UE to identify their common terms. (d) Re–performing control procedures.

3. **Obtaining Evidence Regarding the Description of Controls** [Para 21, 22, A.22,A.24]:

(a) The Service Auditor shall –

i. **obtain and read** the SO's **description** of its system

ii. **evaluate** whether those aspects of the description included in the scope of the engagement are **fairly presented**. This may include

- Considering the nature of UE and how the services provided by the SO are likely to affect them, for example, whether user entities are from a particular industry and whether they are regulated by government agencies.
- Reading standard contracts, or standard terms of contracts, (if applicable) with user entities to gain an understanding of the SO's contractual obligations.
- Observing procedures performed by SO personnel.
- Reviewing the SO's policy and procedure manuals and other systems documentation, for example, flowcharts and narratives.

iii. determine whether the SO's system has been **implemented** (through enquiry, observation, and inspection of records, other documentation, specific inquiries about changes in controls that were implemented during the period, etc)

(b) **Evaluating Description:** This shall include evaluating, whether:

i. Control objectives stated in the SO's description of its system are **reasonable** in the circumstances

ii. Controls identified in that description were **implemented**

iii. Complementary UE controls, if any, are **adequately described** and

iv. Services performed by a **SSO**, if any, are **adequately described**, including whether the Inclusive Method or the Carve–Out Method has been used in relation to them.

4. **Obtaining Evidence regarding Design of Controls** [Para 23-26, A.25-A.36]:
   (a) The Service Auditor shall determine which of the controls at the SO are necessary to achieve the control objectives stated in the SO's description of its system, and shall assess whether those controls were suitably designed. This determination shall include:
      i. Identifying the risks that threaten the achievement of the control objectives stated in the SO's description of its system; and
      ii. Evaluating the linkage of controls identified in the SO's description of its system with those risks.

   (b) **Principles on Evaluating Controls:**
      i. Controls may consist of a number of activities directed at the achievement of a Control Objective. 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.
      ii. From the viewpoint of a UE or a User Auditor, a control is suitably designed 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.
      iii. A SO or a Service Auditor, however, is not aware of the circumstances at individual UE that would determine whether or not a misstatement resulting from a control deviation is material to those UE.
      iv. 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 control objectives stated in the SO's description of its system are achieved.
      v. **Understanding Design of Controls:** A Service Auditor may consider using flowcharts, questionnaires, or decision tables to facilitate understanding the design of the controls.
      vi. Obtaining an understanding of controls sufficient to opine on the suitability of their design is not sufficient evidence regarding their operating effectiveness, unless there is some automation that provides for the consistent operation of the controls as they were designed and implemented.
      vii. For example, obtaining information about the implementation of a manual control at a point in time does not provide evidence about operation of the control at other times. However, because of the inherent consistency of IT processing, performing procedures to determine the design of an automated control, and whether it has been implemented, may serve as evidence of that control's operating effectiveness, depending on the service auditor's assessment and testing of other controls, such as those over program changes.

5. **Obtaining Evidence regarding Operating Effectiveness of Controls:**
   (a) When providing a Type 2 report, the Service Auditor shall test those controls that the Service Auditor has determined are necessary to achieve the control objectives stated in the SO's description of its system, and assess their operating effectiveness throughout the period.
   (b) **Periodicity of Testing:** To be useful to User Auditors, a Type 2 report ordinarily covers a minimum period of 6 months. If the period is less than 6 months, the Service Auditor may describe the reasons for the shorter period in his Report. Circumstances that may result in a report covering a period of less than 6 months, if –
      i. the Service Auditor is engaged close to the date by which the report on controls is to be issued
      ii. the SO (or a particular system or application) has been in operation for less than 6 months
      iii. significant changes have been made to the controls and it is not practicable either to wait 6 months before issuing a report or to issue a report covering the system both before and after the changes.
   (c) **Timing of Testing:** Certain control procedures may not leave evidence of their operation that can be tested at a later date and, accordingly, the Service Auditor may find it necessary to test the Operating Effectiveness of such control procedures at various times throughout the reporting period.
   (d) **Prior Period Evidence:**
      i. The service auditor provides an opinion on the operating effectiveness of controls throughout each period, therefore, sufficient appropriate evidence about the operation of controls during the current period is required for the service auditor to express that opinion.
      ii. Knowledge of deviations observed in prior engagements may, however, lead the service auditor to increase the extent of testing during the current period.
      iii. 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.
   (e) When designing and performing tests of controls, the service auditor shall:
      i. Perform other procedures in combination with inquiry to obtain evidence about - how the control was applied, the consistency with which the control was applied and by whom or by what means the control was applied
      ii. Determine whether controls to be tested depend upon other controls (indirect controls) and, if so, whether it is necessary to obtain evidence supporting the operating effectiveness of those indirect controls (For ex., when the service auditor decides to test the effectiveness of a review of exception reports detailing "Sales in excess of authorized credit limits", the review and related follow up is the control that is directly of relevance to the Service Auditor. Controls over the accuracy of the information in the reports (for ex., the general IT controls) are described as "indirect" controls) &

iii. Determine means of selecting items for testing that are effective in meeting the objectives of the procedure.

(f) **Extent of Test of Controls:** When determining the extent of Tests of Controls, the Service Auditor shall consider matters including the characteristics of the population to be tested, which includes the nature of controls, the frequency of their application (for example, monthly, daily, a number of times per day), and the expected rate of deviation.

6. **Sampling** [Para 27 – 29, A.25, A.35, A.36]:

(a) **Audit Considerations:** When the Service Auditor uses sampling he shall-

i. Consider the purpose of the procedure & characteristics of the population from which the sample will be drawn when designing the sample.
ii. Determine a sample size sufficient to reduce sampling risk to an appropriately low level.
iii. Select items for the sample in such a way that each sampling unit in the population has a chance of selection.
iv. If a designed procedure is not applicable to a selected item, perform the procedure on a replacement item.
v. If unable to apply the designed procedures, or suitable alternative procedures, to a selected item, treat that item as a deviation.

(b) **Method of Selecting Samples:** The means of selecting items for testing available to the service auditor are:

i. Selecting all items (100% examination).
ii. 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 sufficiently frequently to render a large population for sampling, for example, controls that are applied monthly or weekly and
- 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.

iii. **Sampling:** This may be appropriate for testing controls that are applied frequently in a uniform manner and which leave documentary evidence of their application.

7. **Nature and Cause of Deviations** [Para 28, 29, A.25]:

(a) **Control Deviation:** The Service Auditor shall investigate the nature and cause of any deviations identified & shall determine whether:

Identified deviations are within the expected rate of deviation and are acceptable	(or)	Additional testing of the control(s) is necessary to reach a conclusion on whether the controls relative to a particular control objective are operating effectively throughout the specified period	(or)	The testing that has been performed provides an appropriate basis for concluding that the control did not operate effectively throughout the specified period

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Hence, the testing that has been performed provides an appropriate basis for concluding that the control is operating effectively throughout the specified period

(b) **Anomaly:**

i. In the rare cases when the Service Auditor considers a deviation discovered in a sample to be an anomaly and no other controls have been identified that allow the Service Auditor to conclude that the relevant control objective is operating effectively throughout the specified period, the Service Auditor shall obtain a high degree of certainty that such deviation is not representative of the population.
ii. The Service Auditor shall obtain this degree of certainty by performing additional procedures to obtain sufficient appropriate evidence that the deviation does not affect the remainder of the population.

8. **Using the work of Internal Audit**

(a) **The Work of an Internal Audit Function:** The Service Auditor shall perform the following in relation to making use of the Internal Audit Function-

i. Obtaining an Understanding of the Internal Audit Function
ii. Determining Whether and to What Extent to Use the Work of the Internal Auditors
iii. Use the Work of the Internal Audit Function
iv. Consider the effect on the Service Auditor's Assurance Report

(This SAE does not deal with instances when individual Internal Auditors provide direct assistance to the service auditor in carrying out audit procedures)

(b) **Obtaining an Understanding of the Internal Audit Function** [Para 30, A.37]:

i. The Service Auditor shall obtain an understanding of the nature of the responsibilities of the Internal Audit function and of the activities performed to determine whether the internal audit is likely to be relevant to the engagement.

ii. An Internal Audit function may be responsible for providing analyses, evaluations, assurances, recommendations, and other information to Management and those charged with Governance.

iii. An internal audit function at a SO may perform activities related to the SO's own system of internal control, or activities related to the services and systems, including controls, that the SO is providing to UE.

(c) **Determining Extent of usage of Internal Auditor's work** [Para 31-33, A.38]:

The Service Auditor shall determine

Whether the work of the internal auditors is likely to be **adequate** for purposes of the engagement	If so, the planned **effect of the work** of the internal auditors on the nature, timing or extent of the Service Auditor's procedures.
In determining this, he shall evaluate – (a) Objectivity of the Internal Auditor (b) Technical competence of Internal Auditor (c) Due professional care exercised by Internal Auditors (d) Whether there is likely to be effective communication between the Internal Auditors and the Service Auditor.	In determining the above, he shall consider – (a) The nature and scope of specific work performed (or to be performed) by the Internal Auditors (i.e., limited scope or wide scope being covered by the Internal Auditor) (b) The significance of that work to the Service Auditor's conclusions (for ex., work of the internal auditors relates to controls that are less significant to the Service Auditor) (c) The degree of subjectivity involved in the evaluation of the evidence gathered in support of those conclusions (i.e., requirement of subjective or complex judgements)

(d) **Using the Work of the Internal Audit Function** [Para 34, 35, A.39]:

i. Where the specific work of the Internal Auditors is used by the Service Auditor, he shall **evaluate** and **perform procedures** on that work to determine its adequacy for the service auditor's purposes.

ii. **Evaluation:** The work of the Internal Auditors will be evaluated on the following lines –
- The work was performed by Internal Auditors having adequate technical training and proficiency
- The work was properly supervised, reviewed and documented
- Adequate evidence has been obtained to enable the Internal Auditors to draw reasonable conclusions
- Conclusions reached are appropriate in the circumstances & any reports prepared by the Internal Auditors are consistent with the results of the work performed
- Exceptions or unusual matters disclosed by Internal Auditors are properly resolved.

iii. **Additional Procedures:** The Service Auditor shall perform the following procedures –
- Examination of items already examined by the internal auditors;
- Examination of other similar items; and
- Observation of procedures performed by the internal auditors.

iv. The nature, timing and extent of the above procedures will depend on the Service Auditor's assessment of the significance of that work to the Service Auditor's conclusions (for ex., the significance of the risks that the controls tested seek to mitigate), the evaluation of the internal audit function and the evaluation of the specific work of the Internal Auditors.

(e) **Effect on the Service Auditor's Assurance Report** [Para 36, 37, A.40, A.41]:

i. If the work of the Internal Audit function has been used, the Service Auditor shall make no reference to that work in the section of the Service Auditor's assurance report that contains the Service Auditor's opinion.

ii. The Service Auditor has sole responsibility for the opinion expressed in the Service Auditor's Assurance Report, and that responsibility is not reduced by the Service Auditor's use of the work of the Internal Auditors.

iii. The above conditions are not applicable, in the case of a Type 2 report, where the work of the Internal Audit function has been used in performing Tests of Controls. In such cases, that part of the Type 2 report that describes the Service Auditor's Tests of Controls and the results thereof shall include a description of the Internal Auditor's work and of the Service Auditor's procedures with respect to that work. For example, the Service Auditor can present his report in the following ways:
- 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.
- Attribution of individual tests to Internal Audit.

C. REPORTING RESPONSIBILITIES

1. **Contents of Service Auditor's Assurance Report** [Para 53, A.47, A.48]: The report shall include the following –
   (a) Title ("Independent Service Auditor's Assurance Report") & Addressee.
   (b) Identification of:
      (i) The SO's description of its system, and the SO's assertion, which includes the matters described in paragraph 9(k)(2) for a Type 2 report, or paragraph 9(j)(2) for a Type 1 report *(Refer Definitions)*
      (ii) Those parts of the SO's description of its system, if any, that are not covered by the Service Auditor's opinion.
      (iii) If the description refers to the need for Complementary User Entity Controls, a statement that the Service Auditor has not evaluated the suitability of design or operating effectiveness of Complementary User Entity Controls, and that the control objectives stated in the SO's description of its system can be achieved only if Complementary User Entity Controls are suitably designed or operating effectively, along with the controls at the SO.
      (iv) If services are performed by a SSO, the nature of activities performed by the SSO as described in the SO's description of its system and whether the Inclusive Method or the Carve–Out Method has been used in relation to them. Where the Carve–Out Method has been used, a statement that the SO's description of its system excludes the control objectives and related controls at relevant SSO, and that the Service Auditor's procedures do not extend to controls at the SSO. Where the Inclusive Method has been used, a statement that the SO's description of its system includes control objectives and related controls at the SSO, and that the Service Auditor's procedures extended to controls at the SSO.
   (c) Identification of the criteria, and the party specifying the control objectives.
   (d) A statement that the report and, in the case of a Type 2 report, the description of Tests of Controls are intended only for User Entities and their Auditors, who have a sufficient understanding to consider it, along with other information including information about controls operated by User Entities themselves, when assessing the risks of material misstatements of User Entities' Financial Statements. In addition, the Service Auditor may consider it appropriate to include wording that specifically restricts distribution of the assurance report other than to intended Users, its use by others, or its use for other purposes.
   (e) A statement that the SO is responsible for:
      (i) Preparing the description of its system, and the accompanying assertion, including the completeness, accuracy and method of presentation of that description and that assertion
      (ii) Providing the services covered by the SO's description of its system
      (iii) Stating the control objectives (where not identified by law or regulation, or another party, for example, a user group or a professional body)
      (iv) Designing & implementing controls to achieve the control objectives stated in SO's description of its system.
   (f) A statement that the Service Auditor's responsibility is to express an opinion on the SO's description, on the design of controls related to the control objectives stated in that description and, in the case of a Type 2 Report, on the operating effectiveness of those controls, based on the Service Auditor's procedures.
   (g) A statement that the engagement was performed in accordance with SAE 3402, "Assurance Reports on Controls at a Service Organization," which requires that the Service Auditor comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether, in all material respects, the SO's description of its system is fairly presented and the controls are suitably designed and, in the case of a Type 2 report, are operating effectively.
   (h) A summary of the Service Auditor's procedures to obtain reasonable assurance and a statement of the Service Auditor's belief that the evidence obtained is sufficient and appropriate to provide a basis for the Service Auditor's opinion, and, in the case of a Type 1 report, a statement that the Service Auditor has not performed any procedures regarding the operating effectiveness of controls and therefore no opinion is expressed thereon.
   (i) A statement of the limitations of controls and, in the case of a Type 2 report, of the risk of projecting to future periods any evaluation of the operating effectiveness of controls.
   (j) The Service Auditor's opinion, expressed in the positive form, on whether, in all material respects, based on suitable criteria:
      (i) In the case of a Type 2 report:
         - The description fairly presents the SO's system that had been designed & implemented throughout the specified period.
         - The controls related to the control objectives stated in the SO's description of its system were suitably designed throughout the specified period
         - The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the specified period.
      (ii) In the case of a Type 1 report:
         - The description fairly presents the SO's system that had been designed and implemented as at the specified date
         - The controls related to the control objectives stated in the SO's description of its system were suitably designed as at the specified date.

(k) The date of the Service Auditor's Assurance Report, which shall be no earlier than the date on which the Service Auditor has obtained sufficient appropriate evidence on which to base the opinion.

(l) **Practitioner's Signature**–The report should be signed by the practitioner in his personal name. Where the Firm is appointed, the report should be signed in the personal name of the Engagement Partner and in the name of the Firm. The Partner/Proprietor signing the Assurance Report also needs to mention the Membership Number assigned by the ICAI. If Partnership/Proprietorship Firm is appointed, the registration number of the Firm, as may be allotted by ICAI, also needs to be mentioned in the Assurance Reports signed by them.

(m) **The place of signature** – the report should name specific location (i.e., the city where the report is signed)

2. **Type 2 Reports** [Para 54, A.49]:

(a) In the case of a Type 2 report, the Service Auditor's Assurance Report shall include a separate section after the opinion, or an attachment, that describes the Tests of Controls that were performed and the results of those tests.

(b) In describing the Tests of Controls, the Service Auditor shall clearly state which controls were tested, identify whether the items tested represent all or a selection of the items in the population, and indicate the nature of the tests in sufficient detail to enable User Auditors to determine the effect of such tests on their risk assessments.

(c) If deviations have been identified, the Service Auditor shall include the extent of testing performed that led to identification of the deviations (including the sample size where sampling has been used), and the number and nature of the deviations noted.

(d) The Service Auditor shall report deviations even if, on the basis of tests performed, the Service Auditor has concluded that the related control objective was achieved.

(e) In describing the nature of the Tests of Controls for a Type 2 report, it assists readers of the Service Auditor's Assurance Report if the Service Auditor includes:

- The results of all tests where deviations have been identified, even if other controls have been identified that allow the Service Auditor to conclude that the relevant control objective has been achieved or the control tested has subsequently been removed from the SO's description of its system.
- Information about causative factors for identified deviations, to the extent he has identified such factors.

3. **Modified Opinions** [Para 55, A.50-A.52]: The Service Auditor's opinion shall be modified, and the Service Auditor's assurance report shall contain a clear description of all the reasons for the modification, if he concludes that -

(a) The SO's description does not fairly present, in all material respects, the system as designed and implemented.

(b) The controls related to the control objectives stated in the description were not suitably designed, in all material respects.

(c) In the case of a Type 2 report, the controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the SO's description of its system were achieved, did not operate effectively, in all material respects or the Service Auditor is unable to obtain sufficient appropriate evidence.

D. OTHER MISCELLANEOUS RESPONSIBILITIES

1. **Written Representations** [Para 38 – 40, A.42, A.43]:

(a) It shall be in the form of a representation letter addressed to the Service Auditor.

(b) It shall be dated as near as practicable to, but not after, the date of the Service Auditor's Assurance Report.

(c) If, the SO does not provide the Written Representations requested, the Service Auditor shall Disclaim an opinion.

(d) **Contents of Written Representation:** The SO shall provide representation –

i. That reaffirm the assertion accompanying the description of the system

ii. That it has provided the Service Auditor with all relevant information and access agreed to and

iii. That it has disclosed to the Service Auditor any of the following of which it is aware:

- Non–compliance with laws and regulations, fraud, or uncorrected deviations attributable to the SO that may affect one or more user entities
- Design deficiencies in controls
- Instances where controls have not operated as described and
- Any events subsequent to the period covered by the SO's description of its system up to the date of the Service Auditor's Assurance Report that could have a significant effect on the Service Auditor's Report.

2. **Other Information** [Para 41, 42, A.44, A.45]

(a) The Code of Ethics of the ICAI requires that a Service Auditor not be associated with information where he believes that the information:

i. Contains a materially false or misleading statement,

ii. Contains statements or information furnished negligently, or

iii. Omits or obscures information required to be included where such omission or obscurity would be misleading.

(b) **Audit Consideration:**

i. The Service Auditor shall read the other information, if any, included in a document containing the SO's description of its system and the Service Auditor's Assurance Report, to identify material inconsistencies, if any, with that description.
ii. While reading the other information for the purpose of identifying material inconsistencies, the Service Auditor may become aware of an apparent misstatement of fact in that other information.
iii. **Discussion with the Management:** If the Service Auditor becomes aware of a material inconsistency or an apparent misstatement of fact in the Other Information, he shall discuss the matter with the SO.
iv. If the Service Auditor concludes that there is a material inconsistency or a misstatement of fact in the other information that the SO refuses to correct, the service auditor shall take further appropriate action.

(c) If other information included contains future–oriented information such as recovery or contingency plans, or plans for modifications to the system that will address deviations identified in the Service Auditor's Assurance Report, or claims of a promotional nature that cannot be reasonably substantiated, the Service Auditor may request that information be removed or restated.

(d) If the SO refuses to remove or restate such information, further actions that may be appropriate include, for ex.,-
i. Requesting the SO to consult with its legal counsel as to the appropriate course of action.
ii. Describing the material inconsistency or material misstatement of fact in the assurance report.
iii. Withholding the assurance report until the matter is resolved.
iv. Withdrawing from the engagement.

3. **Subsequent Events** [Para 43, 44]
(a) The Service Auditor shall inquire whether the SO is aware of any events subsequent to the period covered by the SO's description of its system up to the date of his report that could have a significant effect on his report.
(b) If the Service Auditor is aware of such an event, and information about that event is not disclosed by the SO, the Service Auditor shall disclose it in his Service Auditor's Assurance Report.
(c) The Service Auditor has no obligation to perform any procedures regarding the description of the SO's system, or the suitability of design or operating effectiveness of controls, after the date of his report.

4. **Documentation** [Para 45 – 52]:
(a) **Principles of Documentation:**
i. The Service Auditor shall prepare documentation that is sufficient to enable an experienced Service Auditor, having no previous connection with the engagement, to understand:
- The nature, timing, and extent of the procedures performed to comply with this SAE and applicable legal and regulatory requirements
- The results of the procedures performed, and the evidence obtained and
- Significant matters arising during the engagement, and the conclusions reached thereon and significant professional judgments made in reaching those conclusions.

ii. The Service Auditor shall assemble the documentation in an engagement file and complete the administrative process of assembling the final engagement file on a timely basis (not more than 60 days after the date of the service auditor's report).
iii. After the assembly of the final engagement file has been completed, the Service Auditor shall not delete or discard documentation before the end of its retention period.
iv. If the Service Auditor finds it necessary to modify existing engagement documentation or add new documentation after the assembly of the final engagement file has been completed and that documentation does not affect the Service Auditor's Report, he shall document:
- The specific reasons for making them; and
- When and by whom they were made and reviewed.

(b) **Contents:** The Service Auditor shall record-
i. The identifying characteristics of the specific items or matters being tested
ii. Who performed the work and the date such work was completed
iii. Who reviewed the work performed and the date and extent of such review
iv. If the Service Auditor uses specific work of the Internal Auditors, he shall document the conclusions reached regarding the evaluation of the adequacy of the work of the Internal Auditors, and the procedures performed by him on that work.
v. Discussions of significant matters with the SO and others including the nature of the significant matters discussed and when and with whom the discussions took place.
vi. If the Service Auditor has identified information that is inconsistent with the service auditor's final conclusion regarding a significant matter, he shall document how he addressed the inconsistency.

5. **Other Communication Responsibilities** [Para 56, A.53]: If the Service Auditor becomes aware of Non–Compliance with Laws and Regulations, Fraud, or Uncorrected Errors attributable to the SO that are not clearly trivial and may affect one or more UE, the Service Auditor shall determine whether the matter has been communicated appropriately to

affected User Entities. If the matter has not been so communicated and the SO is unwilling to do so, the Service Auditor shall take appropriate action, for ex.–

- Obtaining legal advice about the consequences of different courses of action.
- Communicating with those Charged with Governance of the SO.
- Communicating with third parties (for example, a regulator) when required to do so.
- Modifying the Service Auditor's opinion, or adding an Other Matter paragraph.
- Withdrawing from the engagement.

APPENDIX

Illustration: Questionnaire for Service Auditor in determining whether those aspects of the description included in the scope of engagement are fairly presented in all material respects [Para A.21]

S No	Area of Enquiry	Remarks
1	Does the description address the major aspects of the service provided (within the scope of the engagement) that could reasonably be expected to be relevant to the common needs of a broad range of User Auditors in planning their audits of User Entities' Financial Statements?	
2	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 in accordance with SA 315? (The description need not address every aspect of the SO's processing or the services provided to UE, and need not be so detailed as to potentially allow a reader to compromise security or other controls at the SO)	
3	Is the description prepared in a manner that does not omit or distort information that may affect the common needs of a broad range of User Auditors' decisions (for ex., does the description contain any significant omissions or inaccuracies in processing of which the Service Auditor is aware?)	
4	Where some of the control objectives stated in the SO's description of its system have been excluded from the scope of the engagement, does the description clearly identify the excluded objectives?	
5	Have the controls identified in the description been implemented?	
6	Are Complementary User Entity Controls, if any, described adequately? (See Note)	
7	If the Inclusive Method has been used, does the description separately identify controls at the SO and controls at the SSO?	
8	If the Carve–Out Method is used, does the description identify the functions that are performed by the SSO? When the Carve–Out Method is used, the description need not describe the detailed processing or controls at the SSO.	

Note: In most cases, the description of control objectives is worded such that the control objectives are capable of being achieved through effective operation of controls implemented by the SO alone. In some cases, however, the control objectives stated in the SO's description of its system cannot be achieved by the SO alone because their achievement requires particular controls to be implemented by UE (for ex., the control objectives are specified by a regulatory authority). 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 SO alone.

Illustration: Questionnaire for Service Auditor to evaluate whether the control objectives stated in the SO's description of its system are reasonable in the circumstances [Para A.23]

S No	Area of Enquiry	Remarks
1	Have the stated control objectives been designated by the SO or by outside parties such as a Regulatory Authority, a user group, or a professional body that follows a transparent due process?	
2	Where the stated control objectives have been specified by the SO, do they relate to the types of assertions commonly embodied in the broad range of User Entities' Financial Statements to which controls at the SO could reasonably be expected to relate? (Refer Note)	
3	Where the stated control objectives have been specified by the SO, are they complete? – 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 SO on the assertions commonly embodied in User Entities' Financial Statements.	

Note: Although the service auditor ordinarily will not be able to determine how controls at a SO specifically relate to the assertions embodied in individual User Entities' Financial Statements, the Service Auditor's understanding of the nature of the SO's system, including controls, and services being provided is used to identify the types of assertions to which those controls are likely to relate.

Example Service Organization's Assertions: Type 2 Service Organization's Assertion

The accompanying description has been prepared for Customers who have used [the type or name of] system and their Auditors who have a sufficient understanding to consider the description, along with other information including information about controls operated by Customers themselves, when assessing the risks of material misstatements of Customers' Financial Statements.

XYZ Ltd confirms that:

1. The accompanying description at pages [… to …] fairly presents [the type or name of] system for processing Customers' Transactions throughout the period 1.4.20.. to 31.3.20..
2. The criteria used in making this Assertion were that the accompanying description:
   (a) Presents how the system was designed and implemented, including:
      i. The types of services provided, including, as appropriate, classes of transactions processed.
      ii. The procedures, within both Information Technology and manual systems, by which those transactions were initiated, recorded, processed, corrected as necessary, and transferred to the reports prepared for Customers.
      iii. The related accounting records, supporting information and specific accounts that were used to initiate, record, process and report transactions (this includes the correction of incorrect information and how information was transferred to the reports prepared for Customers).
      iv. How the system dealt with significant events and conditions, other than transactions.
      v. The process used to prepare reports for Customers.
      vi. Relevant control objectives and controls designed to achieve those objectives.
      vii. Controls that we assumed, in the design of the system, would be implemented by UE, and which, if necessary to achieve control objectives stated in the accompanying description, are identified in the description along with the specific control objectives that cannot be achieved by ourselves alone.
      viii. Other aspects of our control environment, risk assessment process, information system (including the related business processes) and communication, control activities and monitoring controls that were relevant to processing and reporting Customers' transactions.
   (b) Includes relevant details of changes to the SO's system during the period 1.4.20.. to 31.3.20...
   (c) Does not omit or distort information relevant to the scope of the system being described, while acknowledging that the description is prepared to meet the common needs of a broad range of customers and their Auditors and may not, therefore, include every aspect of the system that each individual customer may consider important in its own particular environment.
3. The controls related to the control objectives stated in the accompanying description were suitably designed and operated effectively throughout the period 1.4.20.. to 31.3.20... The Criteria used in making this Assertion were that:
   (a) The risks that threatened achievement of the Control Objectives stated in the description were identified.
   (b) The identified controls would, if operated as described, provide reasonable assurance that those risks did not prevent the stated Control Objectives from being achieved.
   (c) The controls were consistently applied as designed, including that manual controls were applied by individuals who have the appropriate competence and authority, throughout the period 1.4.20.. to 31.3.20...

Example Service Organization's Assertions: Type 1 Service Organization's Assertion

The accompanying description has been prepared for Customers who have used [the type or name of] system and their Auditors who have a sufficient understanding to consider the description, along with other information including information about controls operated by Customers themselves, when obtaining an understanding of Customers' Information Systems relevant to Financial Reporting.

XYZ Ltd confirms that:

1. The accompanying description at pages [… to …] fairly presents [the type or name of] system for processing Customers' Transactions as at 31.3.20..
2. The criteria used in making this assertion were that the accompanying description:
   (a) Presents how the system was designed and implemented, including:
      i. (Point i to viii as in above example)
   (b) (same as in Point 2(c) above)
3. The controls related to the Control Objectives stated in the accompanying description were suitably designed as at 31.03.20... The Criteria used in making this Assertion were that:
   (a) (same as point 3(a) above)
   (b) (same as point 3(b) above)

Type 2 Service Auditor's Assurance Report

Independent Service Auditor's Assurance Report on Description of Controls, their Design & Operating Effectiveness

To: XYZ Service Organization

Scope
We have been engaged to report on XYZ Service Organization's description at pages … to … of its [type or name of] system for processing Customers' transactions throughout the period 1.4.20.. to 31.03.20.. (the description), and on the design and operation of controls related to the Control Objectives stated in the description.

XYZ Service Organization's Responsibilities: XYZ Service Organization is responsible for:
(a) preparing the description and accompanying assertion at page no…, including the completeness, accuracy and method of presentation of the description and assertion,
(b) providing the services covered by the description
(c) stating the Control Objectives and
(d) designing, implementing and effectively operating controls to achieve the stated control objectives.

Service Auditor's Responsibilities: Our responsibility is to express an opinion on XYZ SO's description and on the design and operation of controls related to the control objectives stated in that description, based on our procedures. We conducted our engagement in accordance with SAE 3402, "Assurance Reports on Controls at a Service Organization," issued by the ICAI. That standard requires that we comply with ethical requirements and plan and perform our procedures to obtain reasonable assurance about whether, in all material respects, the description is fairly presented and the controls are suitably designed and operating effectively. An assurance engagement to report on the description, design and operating effectiveness of controls at a SO involves performing procedures to obtain evidence about the disclosures in the SO's description of its system, and the design and operating effectiveness of controls. The procedures selected depend on the Service Auditor's judgment, including the assessment of the risks that the description is not fairly presented, and that controls are not suitably designed or operating effectively. Our procedures included testing the operating effectiveness of those controls that we consider necessary to provide reasonable assurance that the control objectives stated in the description were achieved. An Assurance Engagement of this type also includes evaluating the overall presentation of the description, the suitability of the objectives stated therein, and the suitability of the criteria specified by the SO and described at page ……

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Limitations of Controls at a Service Organization
(a) **Customer Specific Info:** XYZ Service Organization's description is prepared to meet the common needs of a broad range of customers and their Auditors and may not, therefore, include every aspect of the system that each individual Customer may consider important in its own particular environment.
(b) **Fraud Deterrent:** Also, because of their nature, controls at a service organization may not prevent or detect all errors or omissions in processing or reporting transactions.
(c) **Future Viability:** Also, the projection of any evaluation of effectiveness to future periods is subject to the risk that controls at a service organization may become inadequate or fail.

Opinion: Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion are those described at page ……. In our opinion, in all material respects:
(a) The description fairly presents the [the type or name of] system as designed and implemented throughout the period from … to …
(b) The controls related to the control objectives stated in the description were suitably designed throughout the period from … to … and
(c) The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period from … to ….

Description of Tests of Controls: The specific controls tested and the nature, timing and results of those tests are listed on pages …… to …….

Intended Users and Purpose: This report and the description of tests of controls on page nos. … are intended only for Customers who have used XYZ Service Organization's [type or name of] system, and their Auditors, who have a sufficient understanding to consider it, along with other information including information about controls operated by Customers themselves, when assessing the risks of material misstatements of Customers' Financial Statements.

	For XYZ and Co. Chartered Accountants Firm's Registration Number Signature (Name of the Member Signing the Audit Report) (Designation), (Membership Number)
Place of Signature Date	

Type 1 Service Auditor's Assurance Report

Independent Service Auditor's Assurance Report on the Description of Controls and their Design

To: XYZ Service Organization

Scope

We have been engaged to report on XYZ Service Organization's description at pages … to … of its [type or name of] system for processing Customers' transactions as at 31.3.20.. (the description), and on the design of controls related to the control objectives stated in the description.

We did not perform any procedures regarding the operating effectiveness of controls included in the description and, accordingly, do not express an opinion thereon.

XYZ Service Organization's Responsibilities: XYZ Service Organization is responsible for–

(a) preparing the description and accompanying assertion at page …, including the completeness, accuracy and method of presentation of the description and the assertion
(b) providing the services covered by the description
(c) stating the control objectives and
(d) designing, implementing and effectively operating controls to achieve the stated control objectives.

Service Auditor's Responsibilities

Our responsibility is to express an opinion on XYZ Service Organization's description and on the design of controls related to the control objectives stated in that description, based on our procedures. We conducted our engagement in accordance with SAE 3402, "Assurance Reports on Controls at a Service Organization," issued by the ICAI. That standard requires that we comply with ethical requirements and plan and perform our procedures to obtain reasonable assurance about whether, in all material respects, the description is fairly presented and the controls are suitably designed in all material respects.

An Assurance Engagement to report on the description and design of controls at a SO involves performing procedures to obtain evidence about the disclosures in the SO's description of its system, and the design of controls. The procedures selected depend on the Service Auditor's judgment, including the assessment that the description is not fairly presented, and that controls are not suitably designed. An Assurance Engagement of this type also includes evaluating the overall presentation of the description, the suitability of the Control Objectives stated therein, and the suitability of the Criteria specified by the SO and described at page ….

As noted above, we did not perform any procedures regarding the operating effectiveness of controls included in the description and, accordingly, do not express an opinion thereon.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Limitations of Controls at a Service Organization

XYZ SO's description is prepared to meet the common needs of a broad range of customers and their Auditors and may not, therefore, include every aspect of the system that each individual customer may consider important in its own particular environment. Also, because of their nature, controls at a SO may not prevent or detect all errors or omissions in processing or reporting transactions.

Opinion

Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion are those described at page …. In our opinion, in all material respects –

(a) The description fairly presents the [the type or name of] system as designed and implemented as at 31.3.20.. and
(b) The controls related to the control objectives stated in the description were suitably designed as at 31.3.20..

Intended Users and Purpose

This report is intended only for Customers who have used XYZ Service Organization's [type or name of] system, and their Auditors, who have a sufficient understanding to consider it, along with other information including information about controls operated by customers themselves, when obtaining an understanding of Customers' Information Systems relevant to Financial Reporting.

	For XYZ and Co. Chartered Accountants Firm's Registration Number Signature (Name of the Member Signing the Audit Report) (Designation) Membership Number
Place of Signature Date	

Modified Service Auditor's Assurance Reports

1. Qualified opinion – the SO's description of the system is not fairly presented in all material respects

…

Service Auditor's Responsibilities

…

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Basis for Qualified Opinion

The accompanying description states at page … that XYZ Service Organization uses operator identification numbers and passwords to prevent unauthorized access to the system. Based on our procedures, which included inquiries of staff personnel and observation of activities, we have determined that operator identification numbers and passwords are employed in Applications A and B but not in Applications C and D.

Qualified Opinion

Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion were those described in XYZ Service Organization's assertion at page … In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph:
(a) …

2. Qualified opinion – the controls are not suitably designed to provide reasonable assurance that the control objectives stated in the SO's description of its system will be achieved if the controls operate effectively

…

Service Auditor's Responsibilities

…

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Basis for Qualified Opinion

As discussed at page ….. of the accompanying description, from time to time XYZ Service Organization makes changes in application programs to correct deficiencies or to enhance capabilities. The procedures followed in determining whether to make changes, in designing the changes and in implementing them, do not include review and approval by authorized individuals who are independent from those involved in making the changes. There are also no specified requirements to test such changes or provide test results to an authorized reviewer prior to implementing the changes.

Qualified Opinion

Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion were those described in XYZ Service Organization's assertion at page …. In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph:
(a) …

3. Qualified opinion – the controls did not operate effectively throughout the specified period (Type 2 report only)

…

Service Auditor's Responsibilities

…

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Basis for Qualified Opinion

XYZ Service Organization states in its description that it has automated controls in place to reconcile loan payments received with the output generated. However, as noted at page … of the description, this control was not operating effectively during the period from dd/mm/yyyy to dd/mm/yyyy due to a programming error. This resulted in the non–achievement of the control objective "Controls provide reasonable assurance that loan payments received are properly recorded" during the period from dd/mm/yyyy to dd/mm/yyyy. XYZ implemented a change to the program performing the calculation as of [date], and our tests indicate that it was operating effectively during the period from dd/mm/yyyy to dd/mm/yyyy.

Qualified Opinion

Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion were those described in XYZ Service Organization's assertion at page ... In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph:

…

4. Qualified Opinion – the Service Auditor is unable to obtain sufficient appropriate evidence

…

Service Auditor's Responsibilities

…

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Basis for Qualified Opinion

XYZ Service Organization states in its description that it has automated controls in place to reconcile loan payments received with the output generated. However, electronic records of the performance of this reconciliation for the period from dd/mm/yyyy to dd/mm/yyyy were deleted as a result of a computer processing error, and we were therefore unable to test the operation of this control for that period. Consequently, we were unable to determine whether the control objective "Controls provide reasonable assurance that loan payments received are properly recorded" operated effectively during the period from dd/mm/yyyy to dd/mm/yyyy.

Qualified Opinion

Our opinion has been formed on the basis of the matters outlined in this report. The criteria we used in forming our opinion were those described in XYZ Service Organization's assertion at page …. In our opinion, except for the matter described in the Basis for Qualified Opinion paragraph–

(a) …