

REPORTING ON CONTROLS AT A SERVICE ORGANIZATION: CSAE 3416

Types of Reports to be Issued

1. **Type 1 Report** (Report on management's description of a service organization's system and the suitability of the design of controls); or
2. **Type 2 Report** (Report on management's description of a service organization's system and the suitability of the design and operating effectiveness of controls)

Type 1 vs. Type 2 Report:

- **Type 1 report** contains the following:
 1. **Management's description** of the service organization's system
 2. A **written assertion by management** of the service organization about whether:
 - a. Mgmt's description of the service organization's system fairly presents the **system that was designed and implemented** as of a specified date; and
 - b. The controls were **suitably designed** to achieve control objectives (as described) as of the specified date
 3. A service auditor's report that expresses an **opinion on 2(1) and 2(b)**
- **Type 2 report** contains **everything a type 1 report has** with the following additions:
 - A written representation by mgm't that **the controls operated effectively** throughout the specified period to achieve control objectives; and
 - The service auditor's opinion express whether the **controls operated effectively** through the specified period and includes a **description of the tests of controls and the results**

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

- The service auditor should read mgmt's description of the service organization's system and evaluate whether:
 - The control objectives stated are reasonable
 - Controls identified were implemented (through inspection of record, inquiries and observation)
 - Complementary user entity controls, if any, are adequately described
 - Services performed by a subservice organization, if any, are adequately described

Obtaining Evidence Regarding the Design of Controls

- Service auditor should determine **which of the controls are necessary** to achieve the control objectives stated in management's description and assess whether those controls were suitably designed by:
 - Identifying the **risks that threaten the achievement of the control objectives** stated in management's description; and
 - Evaluating the linkage of the controls identified in management's description with those risks

Obtaining Evidence Regarding the Operating Effectiveness of Controls

- When performing a type 2 engagement,
 - Test those controls that the service auditor has determined are necessary to achieve the control objectives stated in management's description and assess their operating effectiveness through the period
 - Inquire about changes in the service organization's controls that were implemented during the period covered by the service auditor's report

- When designing and performing tests of controls:
 - Perform other procedures in combination with inquiry to obtain evidence about:
 1. **How** the control was applied
 2. The **consistency** with which the control was applied
 3. By **whom** or by **what means** the control was applied
 - Whether the controls to be tested **depend on other controls**, and if so, whether it is necessary to obtain evidence supporting the operating effectiveness of those other controls
 - Determine an **effective method for selecting the items to be tested** to meet the objectives of the procedure