

# Audit & Assurance Alert

## CANADIAN STANDARD ON ASSURANCE ENGAGEMENTS

DECEMBER 2018

### Exposure Draft on Proposed CSAE 3416 — *Reporting on Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting* — Comments due February 28, 2019

The purpose of this *Audit & Assurance Alert* is to raise awareness of the recent Exposure Draft issued by the Auditing and Assurance Standards Board (AASB) in December 2018, highlighting significant proposed changes to the current Canadian Standard on Assurance Engagements (CSAE) 3416, *Reporting on Controls at a Service Organization*. These engagements are commonly referred to as SOC <sup>1</sup> engagements.

The objectives of the project to revise and replace CSAE 3416 are to:

- align CSAE 3416 with the AICPA's new AT-C Section 320<sup>2</sup>
- align CSAE 3416 with Canadian umbrella standard CSAE 3000<sup>3</sup>
- continue to align CSAE 3416 in most respects with the International Standard on Assurance Engagements (ISAE) 3402.<sup>4</sup>

1 System and Organization Controls

2 AT-C Section 320, *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting*.

3 CSAE 3000, *Attestation Engagements Other than Audits or Reviews of Historical Financial Information*.

4 ISAE 3402, *Assurance Reports on Controls as a Service Organization*.

The changes are anticipated to come into effect for reports issued on or after September 15, 2020. Earlier application is permitted.

## Whom Will These Changes Impact?

While a service organization may engage a practitioner to issue a report on its controls, the report that is generated from this engagement is distributed and used by a broad stakeholder group.

Typically, a company that uses a service provider will request a CSAE 3416 report to ensure they can rely on the controls being performed outside of their organization. The company's auditor will also be able to use this report as audit evidence for the purpose of their audit opinion.

Since the changes proposed will impact all these stakeholders, it is important that each stakeholder understands the effects of the proposed changes on itself.

## Why Should I Read the Exposure Draft?

Practitioners can influence the revisions to CSAE 3416 by commenting to the AASB. The AASB carefully reviews these comments before deciding what changes, if any, need to be made when finalizing the standard.

Practitioners who prepare CSAE 3416 reports or who use CSAE 3416 reports as audit evidence (e.g., service auditors' reports) are strongly encouraged to read the Exposure Draft to familiarize themselves with the proposed changes and to consider and provide feedback to the AASB on how they expect these changes will be applied in practice.

## What Is the Deadline for Providing Comments?

Feedback on the revisions to CSAE 3416 must be provided to the AASB by **February 28, 2019**.

## What Is Included in the Exposure Draft and Where can It be Found?

The Exposure Draft consists of:

- background on the project
- main features of the Exposure Draft
- a proposed effective date.

The Exposure Draft, including a list of questions the AASB is asking to get views from stakeholders on specific issues, can be found at: [www.FRASCanada.ca/CSAE3416ED](http://www.FRASCanada.ca/CSAE3416ED).

## How Will CSAE 3416 Change?

The Exposure Draft proposes several key differences from the current CSAE 3416:

### Revisions to Align with AT-C Section 320

These revisions include:

- renaming the standard to specify that reporting will be only on controls relevant to user entities' internal control over financial reporting
- introducing and defining the term "complementary subservice organization controls" which replaces the term "controls at a subservice organization"
- revising the definition of "complementary user entity controls"
- removing the qualifier "in all material respects" from management's statement in the definitions of both type 1 and type 2 reports
- adding a new requirement for the service auditor when using information produced by the service organization
- adding a new requirement that the service auditor read internal audit reports and regulatory examinations that relate to the services provided to user entities and the scope of the engagement
- identifying specific actions the service auditor must take when management refuses to provide written representations
- requiring 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
- making changes to the type 2 service auditor report to eliminate the service auditor's ability to specify which controls were tested. This would then require that the service auditor's opinion be on the operating effectiveness of all controls included in management's description of the service organization's system.

There are some instances where the AASB concluded that additional requirements, beyond those in standalone AT-C Section 320, are necessary, including:

- sampling
- identified or suspected instances of non-compliance with laws and regulations
- using the work of internal audit function
- written representations
- extant terminology differences.

### Revisions to Align with CSAE 3000

These revisions include:

- removal of references to "audit" and replacement by "reasonable assurance"
- removal of unnecessary duplication between CSAE 3416 and CSAE 3000 (including definitions, requirements, etc.).

## Impact of Differences Between CSAE 3000 and AT-C Section 105 and AT-C Section 205

The AICPA's adoption of its own overarching standards that differ from CSAE 3000 introduces challenges to fully aligning the Canadian and AICPA service organization standards. As a result, these differences are not addressed directly in proposed CSAE 3416 but will instead be addressed through non-authoritative guidance.

## Impact of Proposed Changes to Alignment with ISAE 3402

The AASB believes the proposed CSAE 3416 will continue to comply with ISAE 3402 in most respects.

## Other Resources

Please visit [www.FRASCanada.ca/CSAE3416ED](http://www.FRASCanada.ca/CSAE3416ED) for access to the following resources:

1. AASB Exposure Draft, *Reporting on Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting*
2. AASB In Brief, A plain and simple overview of the AASB's recently issued Exposure Draft, CSAE 3416
3. FRAS Canada Reporting on Controls at a Service Organization Landing Page
4. AASB virtual roundtable discussions on the CSAE 3416 Exposure Draft
5. AASB In Brief podcast series on the CSAE 3416 Exposure Draft

## Comments

Comments on this *Audit & Assurance Alert* or suggestions for future Alerts should be sent to:

Yasmine Hakimpour, CPA, CA  
Principal, Audit & Assurance  
Research, Guidance and Support  
Chartered Professional Accountants of Canada  
277 Wellington Street West  
Toronto ON M5V 3H2  
Email: [yhakimpour@cpacanada.ca](mailto:yhakimpour@cpacanada.ca)

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