



Item 4C

Differences Between Requirements in ISAE 3402 and Requirements in the Clarified Attestation Standards

Exhibit B: “Comparison of Requirements of Section 801, *Reporting On Controls at a Service Organization, With Requirements of International Standard on Assurance Engagements 3402, Assurance Reports on Controls at a Service Organization,*” of extant AT 801 identifies differences between the requirements of AT 801 and those of ISAE 3402. The ASB’s clarification of the attestation standards and the December 2013 issuance of ISAE 3000 (Revised), *Assurance Engagements Other than Audits or Reviews of Historical Financial Information* (which made conforming changes to ISAE 3402), have the potential to affect those differences. The analysis in the matrix shown below indicates that the differences that existed when AT 801 was first codified would continue to exist under the clarified attestation standards.

Status of Differences Between Requirements in Extant AT 801 and Requirements in ISAE 3402 Identified in Exhibit B of AT 801 Under the Clarified Attestation Standards

The first column of the following matrix includes the paragraphs from Exhibit B of AT 801. The second column shows the relevant paragraph in the proposed clarified attestation standards, and the third column shows the relevant paragraph in ISAE 3402, as conformed by ISAE 3000 (Revised).

Exhibit B of Extant AT Section 801, <i>Reporting on Controls at a Service Organization</i>	Excerpts from July 2015 Draft of Chapters 2 and 8 of the Proposed Clarified Attestation Standards	ISAE 3402
<p>1. Intentional Acts by Service Organization Personnel</p> <p>Paragraph .26 of this section requires the service auditor to investigate the nature and cause of any deviations identified, as does paragraph 28 of ISAE 3402. Paragraph .27 of this section indicates that if the service auditor becomes aware that the deviations resulted from intentional acts by service organization personnel, the service auditor should assess the risk that the description of the service organization's system is not fairly presented and that the controls are not suitably designed or operating effectively. The ISAE does not contain the requirement included in paragraph .27 of this section. The Auditing Standards Board (ASB) believes that information about intentional acts affects the nature, timing, and extent of the service auditor's procedures. Therefore, paragraph .27 provides follow-up action for the service auditor when he or she obtains information about intentional acts as a result of performing the procedures in paragraph .26 of this section.</p>	<p>8.31 If, as a result of performing the procedures in paragraph 8.30, the service auditor becomes aware that any identified deviations have resulted from fraud by service organization personnel, the service auditor <i>should</i> assess the risk that management's description of the service organization's system is not fairly presented, the controls are not suitably designed, and in a type 2 engagement, the controls are not operating effectively.)</p> <p>(In the clarified attestation standards, the term “fraud” replaces the term “intentional acts.”)</p>	<p>The requirement in paragraph 8.31 is not included in ISAE 3402.</p>

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<p>Paragraph .36(c)(ii) of this section, which is not included in ISAE 3402, also requires the service auditor to request written representations from management that it has disclosed to the service auditor <u>knowledge of any actual, suspected, or alleged intentional acts</u> by management or the service organization's employees, of which it is aware, that could adversely affect the fairness of the presentation of management's description of the service organization's system or the completeness or achievement of the control objectives stated in the description.</p>	<p>8.33 In addition to the requirements in chapter 2 of the attestation standards, the service auditor should request management of the service organization to provide written representations indicating that it has disclosed to the service auditor any of the following of which it is aware:¹</p> <p><i>b.</i> Knowledge of <u>any actual, suspected, or alleged fraud</u> by management or the service organization's employees that could adversely affect the fairness of the presentation of management's description of the service organization's system or the completeness or achievement of the control objectives stated in the description.</p>	<p>38. The service auditor shall request the service organization to provide written representations: (Ref: Para. A42)</p> <p>(c) That it has disclosed to the service auditor any of the following of which it is aware:</p> <p>(i) ...<u>fraud</u>, ...attributable to the service organization that may affect one or more user entities;</p>
<p>2. Anomalies</p> <p>Paragraph 29 of ISAE 3402 contains a requirement that enables a service auditor to conclude that a deviation identified in tests of controls involving sampling is not representative of the population from which the sample was drawn. This section does not include this requirement because of concerns about use of terms such as, "in the extremely rare circumstances" and "a high degree of certainty." These terms are not used in U.S professional standards and the ASB believes their introduction in this section could have unintended consequences. The ASB also believes that the deletion of this requirement will enhance examination quality because deviations identified by the service auditor in tests of controls involving sampling will be treated in the same manner as any other deviation identified by the practitioner, rather than as an anomaly.</p>	<p>This requirement is not included in the proposed clarified attestation standards.</p>	<p>29. In the extremely rare circumstances 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. 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.</p>
<p>3. Direct Assistance</p> <p>Paragraph .35 of this section requires the service auditor to adapt and apply the requirements in paragraph .27 of AU-C section 610, <i>The Auditor's Consideration of the Internal Audit Function in an Audit of Financial Statements</i>, when the service auditor uses members of the service organization's internal audit function to</p>	<p>Paragraphs 2.39, 2.41, 2.42, and 2.44 of chapter 2 address using internal auditors to provide direct assistance.</p>	<p>Paragraph. 32 of ISAE 3402 states, "This ISAE does not deal with instances when individual internal auditors provide direct assistance to the service auditor in carrying out audit procedures."</p>

¹ Paragraph 2.49 of chapter 2.

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<p>provide direct assistance. Because AU-C section 610 provides for an auditor to use the work of the internal audit function in a direct assistance capacity, paragraph .35 of this section also provides for this. The International Standards on Auditing and the ISAEs do not provide for use of the internal audit function for direct assistance.</p>		
<p>4. Subsequent Events</p> <p>With respect to events that occur subsequent to the period covered by the description of the service organization's system up to the date of the service auditor's report, paragraph .42 of this section <u>requires the service auditor to disclose in the service auditor's report, if not disclosed by management in its description, any event that is of such a nature and significance that its disclosure is necessary to prevent users of a type 1 or type 2 report from being misled.</u> The ASB believes that information about such events could be important to user entities and their auditors. ISAE 3402 limits the types of subsequent events that would need to be disclosed in the service auditor's report to those that could have a significant effect on the service auditor's report. Paragraph .43 of this section requires the service auditor to adapt and apply the guidance in AU-C section 560, <i>Subsequent Events and Subsequently Discovered Facts</i>, if, after the release of the service auditor's report, the service auditor becomes aware of conditions that existed at the report date that might have affected management's assertion and the service auditor's report had the service auditor been aware of them. The ISAE does not include a similar requirement. The ASB believes that, by analogy, AU-C section 560 provides needed guidance to a service auditor by presenting the various circumstances that could occur during the subsequent events period and the actions a service auditor should take.</p>	<p>8.32. In performing subsequent events procedures as required by chapter 2, <u>if the service auditor becomes aware of an event that is of such a nature and significance that its disclosure is necessary to prevent users of a type 1 or type 2 report from being misled,</u> and information about that event is not disclosed by management in its description, <u>the service auditor should disclose such event in the service auditor's report.</u>²</p> <p>2.48 The practitioner should inquire of the responsible party, and if different, the engaging party, and apply other appropriate procedures to obtain evidence regarding events subsequent to the period (or point in time) covered by the examination engagement up to the date of the practitioner's report <u>that could have a significant effect on the subject matter or assertion.</u> If the practitioner becomes aware, through inquiry or otherwise, of <u>such an event, or any other event that is of such a nature and significance that its disclosure is necessary to prevent report users from being misled, and information about that event is not adequately disclosed by the responsible party in the subject matter or in its assertion, the practitioner should take appropriate action.</u></p> <p>(Extant AT section 801 refers the service auditor to AU-C section 560, <i>Subsequent Events and Subsequently Discovered Facts</i>, for requirements and guidance related to subsequent events procedures. Chapters 2 and 8 of the clarified attestation standards establish requirements and guidance related to subsequent events.)</p>	<p>43. The service auditor shall inquire whether the service organization is aware of any events subsequent to the period covered by the service organization's description of its system up to the date of the service auditor's assurance report <u>that could have a significant effect on the service auditor's assurance report.</u> If the service auditor is aware of such an event, and information about that event is not disclosed by the service organization, <u>the service auditor shall disclose it in the service auditor's assurance report.</u></p>
<p>5. Statement Restricting Use of the Service Auditor's Report</p>	<p>Paragraphs 8.38/ and 8.39/ state</p> <p>A service auditor's type 2 report (type 1 report) should include the following:</p>	<p>53. The service auditor's assurance report shall contain</p>

² Paragraph 2.47 of chapter 2.

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<p>This section requires the service auditor's report to include a statement restricting the use of the report to management of the service organization, user entities of the service organization's system, and user auditors. The ASB believes that the unambiguous language in the restricted use statement prevents misunderstanding regarding who the report is intended for. Paragraphs .A61–.A62 of this section explain the reasons for restricting the use of the report. ISAE 3402 requires the service auditor's report to include a statement indicating that the report is intended only for user entities and their auditors. However, <u>the ISAE does not require the inclusion of a statement restricting the use of the report to specified parties</u>, although it does not prohibit the inclusion of restricted use language in the report.</p>	<p>An alert in a separate paragraph of the report; the alert should state that the report is</p> <ul style="list-style-type: none"> i. intended solely for the information and use of management of the service organization, user entities of the service organization's system during some or all of the period covered by the service auditor's report, and the auditors who audit and report on such user entities' financial statements ii. <u>not intended to be and should not be used by anyone other than the specified parties</u>³ 	<p>(e) 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.</p>
<p>6. Documentation Completion</p> <p>Paragraph 50 of the ISAE requires the service auditor to assemble the documentation in an engagement file and complete the administrative process of assembling the final engagement file on a timely basis after the date of the service auditor's assurance report. Paragraph .49 of this section also requires the service auditor to assemble the engagement documentation in an engagement file and complete the administrative process of assembling the final engagement file on a timely basis, but also indicates that a timely basis is <u>no later than 60 days following the service auditor's report release date</u>. The ASB made this change to parallel the definition of <i>documentation completion date</i> in paragraph .06 of AU-C section 230, <i>Audit Documentation</i>.</p>	<p>1.35 The practitioner should assemble the engagement documentation in an engagement file and complete the administrative process of assembling the final engagement file <u>no later than 60 days following the practitioner's report release date</u>.</p>	<p>50. 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 after the date of the service auditor's assurance report.</p>
<p>7. Engagement Acceptance and Continuance</p> <p>Paragraph .09 of this section establishes conditions for the acceptance and continuance of an engagement to report on controls at a service organization. One of the conditions is that management acknowledge and accept responsibility for providing the service auditor with written representations at the conclusion of the engagement. ISAE 3402 does not include</p>	<p>In chapter 2, this requirement has been moved from "Preconditions for Engagement Acceptance and Continuance" to "Agreeing on the Terms of the Engagement."</p> <p>Agreeing on the Terms of the Engagement</p> <p>2.8 The agreed-upon terms of the engagement should include the following:</p> <ul style="list-style-type: none"> g. An acknowledgement that the engaging party agrees to provide the practitioner with 	<p>This requirement is not included in ISAE 3402.</p>

³ Paragraph 2.63 or 2.64 of chapter 2, if applicable.

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this requirement as a condition of engagement acceptance and continuance.	a representation letter at the conclusion of the engagement	
<p>8. Disclaimer of Opinion</p> <p>If management does not provide the service auditor with certain written representations, paragraph 40 of ISAE 3402 requires the service auditor, after discussing the matter with management, to disclaim an opinion. In the same circumstances, paragraph .39 of this section requires the service auditor to take appropriate action, which may include disclaiming an opinion or withdrawing from the engagement. Paragraphs .56–.57 of this section contain certain incremental requirements when the service auditor plans to disclaim an opinion.</p>	<p>8.35 ...When management of the service organization (or management of a subservice organization that is being presented using the inclusive method) <u>refuses to furnish one or more of the written representations required by chapter 2⁴ and paragraph 8.33, a scope limitation exists and the practitioner should apply the requirements in chapter 2.⁵</u> ;</p> <p>(The first required representation in paragraph 2.50 is equivalent to management’s assertion.)</p> <p>Error! Reference source not found.</p> <p>2.77 If the scope limitation arises because the responsible party does not provide the practitioner with a written assertion as required by paragraph Error! Reference source not found., the practitioner should withdraw from the engagement when withdrawal is possible under applicable laws or regulations. (Ref: par. Error! Reference source not found.)</p> <p>2.55 When the engaging party is the responsible party, and one or more of the requested written representations are not provided; or the practitioner concludes that there is sufficient doubt about the competence, integrity, ethical values, or diligence of those providing the written representations; or the practitioner concludes that the written representations are otherwise not reliable; the practitioner should</p> <p>a. discuss the matter with the appropriate party(ies);</p> <p>b. reevaluate the integrity of those from whom the representations were requested or received and evaluate the effect that this may have on the reliability of representations and evidence in general; and</p> <p>c. if any of the matters are not resolved to the practitioner’s satisfaction, take appropriate action.</p>	<p>38. The service auditor shall request the service organization to provide written representations: (Ref: Para. A42)</p> <p>(a) That reaffirm the statement accompanying the description of the system;</p> <p>(This representation is equivalent to management’s assertion.)</p> <p>40. If, having discussed the matter with the service auditor, the service organization does not provide one or more of the written representations requested in accordance with paragraph 38(a) and (b) of this ISAE, <u>the service auditor shall disclaim an opinion.</u></p> <p>(The term “statement” in ISAE 3402 is the same as the term “assertion” in chapter 8.)</p>

⁴ Paragraph 2.49 of chapter 2.

⁵ Paragraph 2.54-2.55 and 2.A64-2.A65 of chapter 2.

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	2.A63. The refusal to furnish such evidence in the form of written representations constitutes a limitation on the scope of an examination sufficient to preclude an unmodified opinion <u>and may be sufficient to cause the practitioner to withdraw from the engagement.</u> (Ref: par. 2.55)	
<p>9. Elements of the Section 801 Report That Are Not Required in the ISAE 3402 Report</p> <p>Paragraphs .52–.53 of this section contain certain requirements regarding the content of the service auditor's report, which are incremental to those in ISAE 3402. These incremental requirements are included in paragraphs .52(c)(iii); .52(e)(iv); .52(i); and .52(k) for type 2 reports, and in paragraphs .53(c)(iii); .53(e)(iv); .53(j); and .53(k) for type 1 reports.</p>	<p>The following report elements are required by paragraphs 8.38 and 8.39 but are not required by ISAE 3402:</p> <p>8.38 A service auditor's type 2 report should include the following:</p> <p>c iii. Any information included in a document containing the service auditor's report that is not covered by the service auditor's report Error! Reference source not found.</p> <p>e. A reference to management's assertion and a statement that management is responsible for</p> <p style="padding-left: 40px;">iv. identifying the risks that threaten the achievement of the control objectives</p> <p>h. A statement that an examination of management's description of a service organization's system and the suitability of the design and operating effectiveness of the service organization's controls to achieve the related control objectives stated in the description involves</p> <p style="padding-left: 40px;">ii. assessing the risks that management's description of the service organization's system is not fairly presented and that the controls were not suitably designed or operating effectively to achieve the related control objectives</p> <p>iv. evaluating the overall presentation of management's description of the service organization's system, suitability of the control objectives stated in the description, and suitability of the criteria specified by the service organization in its assertion</p>	<p>The following report elements are required by paragraph 53 of ISAE 3402 but are not required by the clarified attestation standards:</p> <p>(h) A statement that the firm of which the practitioner is a member applies ISQC 1, or other professional requirements, or requirements in law or regulation, that are at least as demanding as ISQC 1. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements in law or regulation, applied that are at least as demanding as ISQC 1.</p> <p>(i) A statement that the practitioner complies with the independence and other ethical requirements of the IESBA Code, or other professional requirements, or requirements imposed by law or regulation, that are at least as demanding as Parts A and B of the IESBA Code related to assurance engagements. If the practitioner is not a professional accountant, the statement shall identify the professional requirements, or requirements imposed by law or regulation, applied that are at least as demanding as Parts A and B of the IESBA Code</p>

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		related to assurance engagements.

The following matrix identifies additional differences between the requirements in ISAE 3402 and the requirements in the clarified attestation standards resulting from the clarification of the attestation standards.

Additional Differences Between the Requirements in the Clarified Attestation Standards and Those in ISAE 3402 Arising from the Clarification of the Attestation Standards

Topic	Excerpts from July 2015 Draft of Chapters 2, and 8 of the Proposed Clarified Attestation Standards	Requirement in ISAE 3402
Sampling	Paragraph 2.31 does not include this requirement.	27. When the service auditor uses sampling, the service auditor shall: (Ref: Para. A35–A36) If a designed procedure is not applicable to a selected item, perform the procedure on a replacement item;
Determining planned effect of work of internal auditors on nature, timing, and extent of procedures.	Not included in the clarified attestation standards.	31. The service auditor shall determine: (a) (b)...the planned effect of the work of the internal auditors on the nature, timing or extent of the service auditor's procedures
Determining whether work of internal auditors is likely to be adequate	Not included in the clarified attestation standards.	32. In determining whether the work of the internal auditors is likely to be adequate for purposes of the engagement, the service auditor shall evaluate: (c) Whether the work of the internal auditors is likely to be carried out with due professional care; and (d) Whether there is likely to be effective communication between the internal auditors and the service auditor.
Factors to be considered in determining planned effect of work of internal auditors	Not included in the clarified attestation standards.	33. In determining the planned effect of the work of the internal auditors on the

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on nature, timing or extent of the service auditor's procedures		<p>nature, timing or extent of the service auditor's procedures, the service auditor shall consider: (Ref: Para. A38)</p> <p>(a) The nature and scope of specific work performed, or to be performed, by the internal auditors;</p> <p>(b) The significance of that work to the service auditor's conclusions; and</p> <p>(c) The degree of subjectivity involved in the evaluation of the evidence gathered in support of those conclusions.</p>
Determining the adequacy of specific work performed by internal auditors for the service auditor's purposes.	Not included in the clarified attestation standards.	<p>35. To determine the adequacy of specific work performed by the internal auditors for the service auditor's purposes, the service auditor shall evaluate whether:</p> <p>(a) The work was performed by internal auditors having adequate technical training and proficiency;</p> <p>(b) The work was properly supervised, reviewed and documented;</p> <p>(c) Adequate evidence has been obtained to enable the internal auditors to draw reasonable conclusions;</p> <p>(d) Conclusions reached are appropriate in the circumstances and any reports prepared by the internal auditors are consistent with the results of the work performed; and</p> <p>(e) Exceptions relevant to the engagement or unusual matters disclosed by the</p>

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Topic	Excerpts from July 2015 Draft of Chapters 2, and 8 of the Proposed Clarified Attestation Standards	Requirement in ISAE 3402
		internal auditors are properly resolved.
Reference to work of internal auditors in service auditor's report.	Included in an application paragraph 8.A67 The service auditor's report does not make any reference to the use of the work of the internal audit function to obtain evidence or to the use of internal auditors to provide direct assistance, other than the description of the work of the internal audit function referred to in paragraph 8.38j(v).	36. 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. (Ref: Para. A40)
Documenting conclusions regarding adequacy of internal auditors' work.	Not included in the clarified attestation standards.	47. If the service auditor uses specific work of the internal auditors, the service auditor shall document the conclusions reached regarding the evaluation of the adequacy of the work of the internal auditors, and the procedures performed by the service auditor on that work.