



## Agenda Item 4

### Discussion Memo

#### **Proposed Chapter 8, “Reporting on an Examination of Controls at a Service Organization Relevant to User Entities’ Internal Control Over Financial Reporting” of the Proposed Clarified Attestation Standards (Clarified AT 801)**

#### **Objectives**

- To obtain input from the ASB on the July 21, 2015 draft of chapter 8, “Reporting on an Examination of Controls at a Service Organization Relevant to User Entities’ Internal Control Over Financial Reporting,” of the proposed clarified attestation standards. The draft is marked to show changes from the May 12-15, 2015 draft made in response to comments from the ASB.
- To vote to ballot chapter 8 for final issuance.

#### **Background**

AT section 801, *Reporting on Controls at a Service Organization*, was originally issued in April 2010 as Statement on Standards for Attestation Engagements (SSAE) No. 16. SSAE No. 16 represents a convergence with International Standard on Assurance Engagements (ISAE) 3402, *Assurance Reports on Controls at a Service Organization*. On September 18, 2014, the ASB issued an exposure draft entitled *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities’ Internal Control Over Financial Reporting: Clarification and Recodification* (chapter 8 of the proposed clarified attestation standards). The ASB is revising AT section 801 to

- align it with the proposed structure of the clarified attestation standards presented in the July 24, 2013 exposure draft *Attestation Standards: Clarification and Recodification* (July 2013 ED)
- incorporate in chapter 8 certain application guidance included in the May 2013 edition of the AICPA guide *Service Organizations: Reporting on Controls at a Service Organization Relevant to User Entities’ Internal Control Over Financial Reporting* (guide)
- address issues encountered in practice.

Chapter 8 of the proposed clarified attestation standards builds on the requirements and application guidance in chapter 1, “Concepts Common to All Attestation Engagements,” and chapter 2, “Examination Engagements,” of the July 2013 ED, to provide performance and reporting requirements and application guidance tailored to a service auditor’s engagement. Based on the proposed new structure of the clarified attestation standards, chapter 8 would not repeat requirements and guidance included in chapters 1-2, unless there is a need to tailor the

requirements and guidance in those chapters to a specific subject matter. (In some cases, a reference to a requirement in another chapter is inserted in the "requirements column" of proposed chapter 8 to provide a footing for an application paragraph.) However, as directed by the ASB at its July/August 2013 meeting, the paragraphs in the subject-matter specific chapters that identify the required report elements contain a complete list of those elements, even if they repeat report elements identified in chapter 2.

### **Description Addresses Controls Over User Entities' ICFR**

The most significant change to the May 12, 2015 draft of chapter 8 is the addition of language in the scope paragraph of the illustrative reports

- intended to clarify that the aspects of the system, controls, and control objectives included in management's description of the service organization's system, are those that are likely to be relevant to user entities' internal control over financial reporting, and
- indicating that the description does not address aspects of the system, controls, or control objectives that are not likely to be relevant to user entities' internal control over compliance or operations, for example, controls over cybersecurity.

### **Comparison of Requirements in ISAE 3402 and in Chapters 1, 2, and 8**

Exhibit B of extant AT section 801 identifies the differences between the requirements in AT section 801 and those in International Standard on Assurance Engagements (ISAE) 3402, *Assurance Reports on Controls at a Service Organization*, on which AT section 801 is based, and the rationale for those differences.

The task force has prepared a matrix that identifies the requirements in ISAE 3402 and their disposition in the current draft of chapters 1, 2 and 8. The restructuring of the attestation standards has made the comparison of the requirements in the two standards less precise because many of the requirements currently in extant AT section 801 now reside in chapters 1 and 2 of the clarified attestation standards. In addition, extant AT section 801 includes many of the paragraphs in ISAE 3402 that address using the work of internal auditors. In the clarified attestation standards, most of the paragraphs on using the work of internal auditors are in chapter 2 and are different from those in AT section 801, and therefore also different from those in ISAE 3402.

The following are the agenda materials for the ASB's discussion of chapter 8:

- Item 4: Memo for the discussion of chapter 8
- Item 4A July 21, 2015 draft of chapter 8 marked from the May 12, 2015 draft
- Item 4B Mapping of the requirements in ISAE 3402 to the requirements in chapters 1, 2, and 8 of the clarified attestation standards
- Item 4C Analysis of how the differences between ISAE 3402 and chapter 8 identified in Exhibit B of extant AT section 801, may have changed as a result of the clarification of the attestation standards and conforming changes made to ISAE 3402 as a result of the December 2013 issuance of ISAE 3000 (Revised),

*Assurance Engagements Other than Audits or Reviews of Historical Financial Information.*

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