

ISAE 3402: A Case of XYZ Service Organization

XYZ software company provides customer relationship management system for a school (the user organization). The school requires the software provider to report on the effective operation of the system. The user organization also requires information from XYZ service providers, on whether data is backed up properly and whether unauthorized access to critical data is not possible. Following this request, XYZ have approached your audit firm to provide an assurance report on the controls.

Below is a sample Type 2 Service Auditor's Assurance Report.

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

To: Management of XYZ Service Organization,
Customers of XYZ and their Auditors

Scope

We have been engaged to report on XYZ Service Organization's description at pages [8-10] of its Dynamics CRM system for processing customers' transactions throughout the period 01/01/2019 to 31/12/2019 (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 has provided its accompanying assertion titled "Management of XYZ Service Organization's Assertion Regarding its Dynamics CRM System Throughout the Period 01/01/2019, to 31/12/2019," regarding the fairness of the presentation of the description based on the description criteria and suitability of the design and operating effectiveness of the controls described therein.

XYZ Service Organization is responsible for: preparing the description and accompanying assertion, including the completeness, accuracy and method of presentation of the description and assertion; providing the services covered by the description; stating the control objectives; and 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 and operation of controls related to the control objectives stated in that description, based on our procedures. We conducted our engagement in accordance with International Standard on Assurance Engagements 3402 "Assurance Reports on Controls at a Service Organization," issued by the International Auditing and Assurance Standards Board. 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 service organization involves performing procedures to obtain evidence about the disclosures in the service organization'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 service organization.

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 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. Also, because of their nature, controls at a service organization may not prevent or detect all errors or omissions in processing or reporting transactions. 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. In our opinion, in all material respects, based on the description criteria identified in XYZ Service Organization's assertion,

- a) The description fairly presents the Dynamics CRM System as designed and implemented throughout the period from 01/01/2019 to 31/12/2019;
- b) The controls related to the control objectives stated in the description were suitably designed throughout the period from 01/01/2019 to 31/12/2019; 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 01/01/2019 to 31/12/2019.

Description of Tests of Controls

The specific controls tested and the nature, timing and results of those tests are listed on pages x-z and include:

- Gaining an understanding of XYZ systems through interview with management responsible.
- Reviewing the systems and procedures to capture, validate and process source data for the assured records included in the sales report.
- Testing the accuracy and completeness of the information from original documents and systems through a sampling basis.
- Testing the consolidation of information and performing recalculations on samples

Intended Users and Purpose

This report and the description of tests of controls on pages are intended only for customers who have used XYZ Service Organization's Dynamics CRM 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.

[Service auditor's signature]

[Date of the service auditor's assurance report]

[Service auditor's address]

References

IFAC Organization. (2011). *IAASB Handbook ISAE 3402*. Retrieved from <https://www.ifac.org/system/files/downloads/b014-2010-iaasb-handbook-isae-3402.pdf>