*Article reprinted from ORIMS Pulse – June, 2011 edition with permission from The Risk and Insurance Management Society, Inc. (Ontario) – http://ontario.rims.org*

# Practical Implications of Controls Assurance Standard Changes:

## Transitioning to CSAE 3416 / SSAE 16 / ISAE 3402


*By:* **Peter Hargitai**, *Partner and* **Jennifer Johnson**, *Director - Controls, Consulting & Deals – PwC*

Organizations that provide services that impact their customers' financial reporting processes are often subject to audits of these processes executed on behalf of their customers. The Auditor's Report on Controls at a Service Organization, Section 5970 has long been the governing standard in Canada for performing these audits, and giving the service organization a mechanism for providing an independent audit report to their customers and their customers' auditors. The requirements and guidance for Canadian auditors reporting under Section 5970 will be superseded by a new Canadian Standard on Assurance Engagements (CSAE 3416) later this year.

Globally, many countries have not had their own standard for performing such audits, which led to the creation of an international standard: International Standard on Assurance Engagements 3402 (ISAE 3402). The international standard provides a reporting option for service organizations with the need for a global attestation standard to deliver consistent reporting worldwide. Similarly, the current standard in the US, which has also been considered the global default standard; Statement on Auditing Standards No. 70 (SAS 70) is being replaced with Statement on Standards for Attestation Engagements (SSAE 16). While CSAE 3416, ISAE 3402 and SSAE 16 have some differences, they are substantially the same.

### Practically Managing the Changes

As with any change in assurance standards, there will be a number of transition items to consider. In this case transition items will impact both the service organizations that issue these reports and users of these reports. A variety of publications have been issued that address the significant differences between the new standards and their predecessors; however, in order to provide more detailed guidance and assist management in their development of a roadmap to the new standards, we have endeavoured to provide management with practical guidance related to some of the more significant transition considerations. Based upon discussions with our clients and in the broader marketplace, some of the key transition considerations many organizations are contemplating include: 1) determining which reporting standard(s) to report under; 2) establishing a process for issuing a formal management assertion; 3) evaluating and managing the potential inclusion of subservice organizations in their report; and 4) considering any potential for increased reliance on the work of internal auditors or others.

### Which Standard(s) to Report Under

Given that CSAE 3416, SSAE 16, and ISAE 3402 are largely harmonized coupled with the growth in global service delivery models at many service organizations, management at these service organizations is contemplating which standard(s) to report under. In our view, the decision around which standard(s) to report under should typically involve an analysis of where the report users are located. For example. we work with a number of Canadian service providers whose customer-base is almost exclusively in the US – in these cases the Canadian Service Provider tends to select the SSAE 16 standard to report under as it is the standard that US companies will be most readily familiar with. For service organizations whose services and customer-base are more global in nature, these service organizations are opting to issue under ISAE 3402 or for a dual opinion under two standards. It is possible to issue one service organization controls report under more than one standard; in these cases we would generally suggest that either CSAE 3416 or SSAE 16 should serve as the anchor standard as they are slightly more stringent than ISAE 3402.

### Issuing a Formal Management Assertion

What is commonly seen as the most significant change between the new standards and their predecessors is the requirement for management assertions where management will have to attest that controls are placed in operation and suitably designed (Type I report), and are operating effectively during the defined period (Type II report). In order to make the necessary assertion, management must develop suitable criteria for making this assertion. In other words, management must have a formalized process to collect the necessary information and data on the in scope processes and controls to provide a basis for their assertion.

In organizations with a robust monitoring framework this will be a less onerous exercise as the necessary monitoring tools are likely in place through a variety of means to provide the necessary information to make the assertion. For example, typical areas that could support management's assertion may include the work of internal teams such as risk management, compliance and internal audit as well as various periodic and ongoing monitoring processes implemented by business unit management such as risk self assessments, error monitoring, senior management oversight controls and the like. The challenge for organizations in this situation will be to define a methodology to collect the various components of monitoring information from the various sources and develop a documentation framework to demonstrate the suitability of the identified activities to address the components of the controls report.

Certain organizations may have less robust monitoring frameworks and these organizations may need to implement additional internal procedures in order to address the necessary components of the management assertion. We would generally expect that organizations in this situation would be smaller organizations and, as such, some of the complicating factors such as the number of business units involved and geographic locations impacted may be less significant. However, determining the necessary monitoring tools required to make the management assertion and implementing those tools in advance of issuing a first report under the new standards could take significant investment.

As a practical means of addressing some of these challenges, an inventory of these oversight and monitoring controls may be a good starting point. A next step may be to map the comfort derived from these oversight and monitoring controls to the processes and business areas (and units) covered by the scope of the report, which should help with assessing completeness of coverage.

### Practical Implications of Controls Assurance Standard Changes

*... continued from page 9*

### Managing Inclusion of Subservice Organizations

A subservice organization being included in a CSAE 3416 or SSAE 16 report will be subject to the same requirement for a management assertion letter; therefore, a similar effort must be implemented at the subservice organization to support their assertion; a process that must also be reviewed by the service auditor. Given this requirement, we anticipate that some subservice organizations may be unwilling to provide the management assertion – given the effort it may require internally for their organization. Additionally, in some cases there are subservice organizations whose control environment (including monitoring controls) may not have matured to a state where management feels confident to "sign-off" on their assertion. This may lead to decisions to scope out, or carve out, the service organization from the scope of the report. However, the decision to scope out subservice organizations that have historically been included in these reports may create a reporting gap and a need to consider other reporting options or avenues to obtain assurances over the subservice organization itself.

Additionally, we recognize that many subservice organizations have had limited involvement in the S5970 or SAS 70 process including access to draft and final reports and may desire an increased level of transparency and involvement given the inclusion of their subservice organization assertion letter.

As a result, we suggest that any service organization looking to include a subservice organization in their reports begin communicating early and often with their contacts at the subservice organization to ensure all parties are in agreement on the approach so that surprises may be avoided later down the line.

### Reliance on Internal Audit Work

The new standards introduce a broader definition of Internal Audit to include other risk and compliance functions that are independent of the business areas and which may now fall under this broader definition. As a result, there may be an increased opportunity for service auditors to rely upon the work of these other risk/compliance functions – thereby reducing the "audit footprint" on the organization. Defining and following a roadmap through these and any other specific transition considerations will assist service organizations in ensuring they are well prepared to address the new requirements, as well as the new opportunities, presented by the changing standards. Establishing regular discussions with service auditors, internal service delivery teams and potentially customers will help ensure alignment in approach and a smooth transition for all parties.

---

**Peter Hargitai – Partner, Controls, Consulting & Deals – PwC**

*Peter Hargitai is a Partner in the PwC Controls – Consulting & Deals practice based in Toronto. He specializes in providing service organization controls reports to Canadian and global service organizations. He chairs PwC's Global Third Party Assurance network setting guidelines and training for providing these services to our global client base.*

**Jennifer Johnson, Director – Controls, Consulting & Deals – PwC**

*Jennifer Johnson is a Director in the PwC Controls – Consulting & Deals practice. She specializes in providing service organization controls reporting to clients and has over 12 years of experience providing these services to clients in Canada, the US, and globally. Jennifer is a member of PwC's Global Third Party Assurance network and chairs the Canadian Third Party Assurance network.*