Third Party Assurance
ISAE3402, SSAE 16
Can your customers trust your Business Process Outsourcing services?
Do you want to share with your customers your confidence in systems, processes and controls through an independent assurance report?
Have you set-up a Shared Service Centre and want to make sure that adequate processes and controls are in place and are ready to go-live?
Have you transitioned new processes and controls and want to know whether they are effectively designed for achieving Service Organisation’s business objectives?
How can you differentiate yourself from your competitors thereby gaining competitive advantage?

For organisations providing transaction processing for their customers, an ISAE3402 or SSAE16 report including an independent auditor opinion is an effective method of communication that internal controls over systems and processes are suitably designed and are operating effectively within a well-controlled environment. Such formal communication has recently become an important success factor when differentiating between service organisations and demonstrating ability to achieve high quality performance.

The concentration on the core business and the increasing cost pressure are the two main factors for the steady rise of outsourced services. Due to increasing national and international requirements (e.g. Sarbanes Oxley Act) outsourcing services gained in importance. In addition the extent and the nature of the outsourced services became more complex.

Service providers of all types, especially those servicing the financial institutions, hosting data centres, providing payroll related services, managing logistic procedures, must demonstrate to their customers and their customers’ stakeholders that they provide complete, accurate, and secure transaction processing in a well controlled environment. Indeed, in many instances, service provider companies are required by their customers to have a third-party examination of their services to provide assurance in connection with financial or internal audits.

ISAE3402 and SSAE16 provide solutions and opportunities both for service organizations and their current or prospective customers:

• Organizations outsourced core business processes will always be interested in the quality of the services they receive from their service organizations. An ISAE3402 or SSAE16 reports summarize the design, implementation, and operating effectiveness of controls at a service organisation and how the implemented system ensures the control objectives will be fully achieved, preset by their customers.

• On one hand, Organizations considering outsourcing or shared service centres are focusing on cost efficiency, but on the other hand they are also looking for providers where they get high quality where their transactions will be handled with the highest care. A third party assurance report can help service providers differentiate themselves, by providing to their prospective customers such report in advance, which describe their system already designed to serve their existing customers with an independent auditor’s report.

• If your organisation provides services having effect on an entity’s financial statements, then you may be asked to provide a report on internal controls for the benefit of the entity’s management and their financial statement auditors. The report should eliminate or significantly reduce the requirement for the company’s auditor to do additional testing of a service provider’s controls.

ISAE3402 vs Agreed Upon Procedures (AUP)

Under International Auditing Standards (IAS) an independent auditor, such as PwC, can issue an assurance report on agreed upon procedures. Such procedures could be tailored to specific users, transactions or controls mostly interested by the users.

This AUP report is commonly chosen by organizations looking for flexibility, cost efficiency or they outsourced certain business processes and the service organization cannot provide them an ISAE3402 or SSAE16 report.

SAS70

Statement on Auditing Standards (SAS) No. 70 has long been the most widespread and recognised standard globally for performing such assessments.

The requirements and guidance for auditors reporting under SAS 70 will be superseded for reporting periods ending on or after the 15th June 2011 by SSAE 16. However, given both SAS 70 and SSAE 16 are US based standards, and many countries did not have their own standard for performing such assessments, an international standard, ISAE 3402, was issued in December 2009. This new standard will provide a reporting option for service organisations that need a global attestation standard to deliver consistent reporting worldwide.
**ISAE3402 – The Report**

**Section 1:** Report of independent auditor

**Section 2:** Service organisation’s description of the system. The System is defined as the policies and procedures designed, implemented, and documented by management to provide customers with the services covered by the service auditor’s report.

**Section 3:** A written management assertion from the service organization that fairly presents the service organization’s system as designed and implemented as at the specified date, and that the controls related to the control objectives stated in the description of the system for the service organization were suitably designed as at the specified date.

**Section 4:** A service auditor’s assurance report conveying reasonable assurance for the matters stated above and that it includes a description of the tests of controls.

There are two types of third party assurance reports under ISAE3402:

- Type 1 report where the auditor opine on fair presentation of service organisation’s description of controls, suitability of controls design and whether controls were placed in operation as of a specific date;
- Type 2 report where the auditor additionally opine on whether the controls tested were operating effectively over a period of time. The report contains description of tests around the operating effectiveness performed by the independent accountant, and the results of those tests. Also contains control considerations that should be employed at entities that use the service organisation.

**Our Expertise & Methodology**

PwC has significant experience in delivering SAS 70 and other Third Party Assurance engagements for major business process outsourcing centres, shared service centres, financial institutions and other service organisations.

In Service Organisations we can provide independent process and control assurance:

- Perform controls readiness reviews;
- Advise on design of effective internal controls;
- Help in business process and controls optimisation;
- Perform independent ISAE3402 or SSAE16 engagements;
- Review internal controls for Sarbanes-Oxley compliance;
- Perform agreed upon procedures engagements;
- Perform system pre- and post-implementation reviews;
- Review IT general controls and IT application controls;
- Review centre-level controls.

With our solution-oriented methodology we are partnering with you to achieve your goals and ensure knowledge transfer.

**Materiality**

When planning and performing the engagement, PwC will consider materiality with respect to the fair presentation of the description, the suitability of the design of controls and, in the case of a type 2 report, the operating effectiveness of controls. This gives us the opportunity to focus mainly on the significant procedures, transaction.

**Understanding of the Service Organization’s System**

As first a first step, PwC will obtain an understanding of the service organization’s system, including controls that are included in the scope of the engagement.

**Obtaining Evidence Regarding Management Assertion (Description).**

PwC will obtain and read the service organization’s description of its system, and evaluate whether those aspects of the description included in the scope of the engagement are fairly presented, including whether:

- Control objectives stated in the service organization’s description of its system are reasonable in the circumstances;
- Controls identified in that description were implemented;
- Complementary user entity controls, if any, are adequately described; and
- Services performed by a subservice organization, if any, are adequately described, including whether the inclusive method or the carve-out method has been used in relation to them.

PwC will determine, through other procedures in combination with inquiries, whether the service organization’s system has been implemented. Those other procedures shall include observation, and inspection of records and other documentation, of the manner in which the service organization’s system operates and controls are applied.

**Obtaining Evidence Regarding Design of Controls**

PwC will determine which of the controls at the service organization are necessary to achieve the control objectives stated in the service organization’s description of its system, and shall assess whether those controls were suitably designed. This determination shall include:

- Identifying the risks that threaten the achievement of the control objectives stated in the service organization’s description of its system; and
- Evaluating the linkage of controls identified in the service organization’s description of its system with those risks.

**Obtaining Evidence Regarding Operating Effectiveness of Controls**

When PwC provides a type 2 report, we test those controls that the service auditor has determined are necessary to achieve the control objectives stated in the service organization’s description of its system, and assess their operating effectiveness throughout the period. PwC will perform procedures in combination of inquiries and substantive audit procedures, like sampling test.

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Globally the following business functions that are outsourced and performed by service organisations are often third party assurance reports:

- Finance and Accounting;
- IT Data Centre / IT services
- Payroll;
- Logistics (warehousing);
- Transfer Agency Services;
- Custodian;
- Investments and Fund Accounting;
- Manufacturing;
- Cloud Computing.
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