③ SAE 3402 : Assurance Reports on Controls at a Service Organisation :

SA 402 :

ABC Ltd. (User Entity) → Asset Mngt. (Trade Receivables) → PQR Ltd. (Service organisation)

ABC Ltd. ↓ Mr. X (Auditor) ↓ Audit of F.S. of ABC Ltd. ↓ T-1 / T-2 Report ↓ SAAE.

SA-402

PQR Ltd. ↓ Mr. Y (Auditor)

- Audit of F.S. of PQR Ltd. ↓ SA.
- I.C. - Examine - Report — SAE.
  - TYPE - 1 ↓ I.C - S.O. - design - description. ↓ as on a date
  - TYPE - 2 ↓ I.C - S.O - design - description - op. effectiveness ↓ for a period

User Entity
↓
User Auditor
↓
Audit of F.S. of User Entity
↓
For that purpose, SAAE are obtained applying procedures as stated in SA 402

Service organisation. (S.O.)
↓
Service Auditor → audit of F.S. of S.O.
↓
Also engaged to report on Description, Design, Controls, Control objectives and Operating effectiveness of Controls prevailing at S.O. (applying procedures as stated in SAE 3402)

(1) Introductory Topics: – From Book – (Already covered in SA 402)

(2) Objectives of Service Auditor:

(A) To obtain reasonable assurance, whether based on suitable Criteria,

Benchmark used to Evaluate the subject matter.

(i) S.O. description of its system fairly presents the system as designed and implemented;

(ii) Controls related to control objectives were suitably designed.

(iii) Control objectives stated in S.O. description of its system were achieved; and

(B) To Report on above stated matters.

(3) Performing the Engagement:

(i) Comply with relevant Ethical requirements.

(ii) Determine persons in management and Governing Role.

(iii) Accept the Engagement after determining that:

(a) he possess necessary capability and competence.

(b) Criteria applied is suitable and available to user Entity and user Auditor;

(c) No limitation imposed on scope.

(iv) Consider Materiality w.r.t. fair description of Controls.

(v) Obtaining understanding of S.O. System and Controls.

(vi) Obtain evidences regarding – (a) Description of controls;

(b) Design " " ; and

(c) Operating effectiveness of Controls.

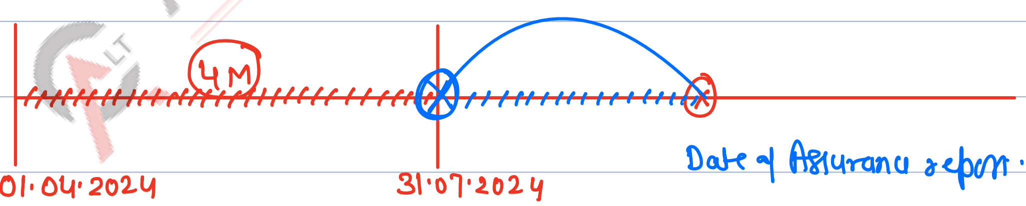
(4) Obtaining Written Representations: Service auditor shall request mngt. of S.O. to provide the WRs:

(a) that reaffirms the assertions accompanying description of system;

(b) that it has provided to auditor with all relevant information and access agreed to; and

(c) that it has disclosed to auditor the following matters of which management is aware of:

- (i) Non-compliance with laws and Regulations;
- (ii) Frauds;
- (iii) Uncorrected Deviations;
- (iv) Design deficiencies in Controls;
- (v) Instances where controls have not been operated or described;
- (vi) Events subsequent to period covered by S.O. description of its system upto date of service auditor assurance report.



(5) Elements of Assurance Report: - From Book (Q.B.) -

(A) Opinion Section of Type-1 Report:
(B) " " " Type-2 " :

Learning + Noting - H.W.

Imp. (C) Additional matters requiring reporting in Type 2 Report:

(i) Include a separate section after the opinion that describes Tests of Controls performed and results of those tests.

(ii) In describing ToCs, clearly state the following:

(a) which controls were tested;

(b) Identify the items tested; and

(c) Indicate nature of tests.

(iii) If deviation identified, include the extent of testing performed and number and nature of deviations.

(iv) Report the deviations, even if it was concluded that related control objectives are achieved.

(3) Modified opinion:

Service auditor is required to modify opinion in following cases:

(i) Description does not fairly present, in all material respects, system as designed and implemented.

(ii) Controls related to control objectives were not designed in all material respects.

(iii) In case of Type 2 Report, Controls tested did not operate effectively, in all material respects.

(iv) Service auditor is unable to obtain sufficient appropriate evidences.

(4) SAE - 3420: