ISAE 3402 and SSAE 16 (replacing SAS 70)
Reinforcing confidence through demonstration of effective controls
One reason for the change is that prior to the IAASB’s development of International Standard on Assurance Engagements 3402 (ISAE 3402), there was no global standard for engagements to report on controls at a service organisation. SAS 70 is a U.S. standard, and although it has been used for engagements outside the U.S., the IAASB saw a need to develop an internationally recognised standard. The AICPA, as part of its efforts to converge its U.S. standards with those of the IAASB, followed suit and issued a new Statement on Standards for Attestation Engagements No. 16 (SSAE 16) that replaced SAS 70 and mirrored ISAE 3402.

The new standards by the IAASB and AICPA are not aimed at overhauling how an engagement to report on controls at a service organisation is performed. Rather, they have been issued to meet the demands of the current market environment and to fit into the modern framework of assurance standards.

Service organisation control reports have become increasingly prevalent in the marketplace since the issuance of Statements on Auditing Standards N° 70, Service Organisations (SAS 70) in 1992.

Replacing SAS70
The International Auditing and Assurance Standards Board (IAASB) issued a new international standard for engagements to report on controls at service organisations. At the same time, the American Institute of Certified Public Accountants (AICPA) also redrafted SAS 70. The new standards have become effective for assurance reports covering periods ending on or after June 15 2011. These revisions of SAS 70 represent the first significant modifications to the standard since it was issued nearly two decades ago. While the standards issued by the IAASB and AICPA are not significantly different from each other, they do present some changes from SAS 70 that may prove challenging for some service organisations.

A short history of audit requirements for service organisations:
• 1992 - Development of SAS 70 by the AICPA.
• 2002 - Passage of the Sarbanes-Oxley Act of 2002 leads to much wider use of SAS 70.
• 2008/2009 - IAASB begins development of international standard on service organisations. AICPA SAS 70 task force begins redrafting SAS 70.
• 2010 - A global standard to be issued by the IAASB called ISAE 3402 and a new U.S. standard to be issued by the AICPA, called SSAE No. 16 to replace SAS 70.
• 2011 - For examination periods ending on or after June 15, 2011, service auditors are required to comply with either SSAE No. 16 or ISAE 3402.
Assessment of your internal control maturity
Contingent on to the maturity of a service organisation with their internal control framework, two types of ISAE 3402/SSAE 16 reports can be issued, resulting from the independent assessment:

A Type 1 report covers controls placed in operation as of a point in time and is considered to be of limited use as it does not cover the operating effectiveness of the controls. Typically, service organisations undertake a Type 1 examination only in their first year of going through such an examination as they may lack the evidential documentation supporting the operating effectiveness of the controls.

Alternatively, a Type 2 report covers controls placed in operation and tests of operating effectiveness for a period of time (generally not less than 6 months and not more than 12 months). This type of report may be utilised by clients and client financial statement auditors for control reliance purposes for an audit, as the differentiating factor is that a Type 2 report includes tests of operating effectiveness and the corresponding results within the report. A Type 2 report is most beneficial to an organisation since it tests the effectiveness of the controls over the period of time and it is most often requested and expected by a service organisation’s clients.

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**Type 1 ISAE 3402 or SSAE 16 report**
Reports on controls placed in operation

- A report on controls placed in operation (as of a point in time)
- Looks at the existence and design of controls - not at their operating effectiveness
- Considered for information purposes only
- Not considered useful for purposes of reliance by user auditors
- Generally performed the first year a service organisation has a ISAE 3402/SSAE 16

**Type 2 ISAE 3402 or SSAE 16 report**
Reports on controls placed in operation and tests of operating effectiveness

- A report on controls placed in operation and tests of operating effectiveness (for a period of time, not less than 6 months and not more than 12 months)
- Differentiating factor: includes tests of operating effectiveness
- More emphasis on evidential matter
- Requires more internal and external effort
- May provide the user auditor with a basis for reducing audit procedures at the service organisation
**ISAE 3402/SSAE 16 report structure**

<table>
<thead>
<tr>
<th>Section one</th>
<th>Independent service auditor’s report (the ‘Opinion’)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Section two</td>
<td>Written assertion provided by the service organisation</td>
</tr>
<tr>
<td>Section three</td>
<td>Description of internal controls and control objectives (provided by the service organisation)</td>
</tr>
<tr>
<td>Section four</td>
<td>Information provided by the independent service auditor (includes tests of operating effectiveness and testing results for a Type 2 report)</td>
</tr>
<tr>
<td>Section five</td>
<td>Other information provided by the service organisation (optional)</td>
</tr>
</tbody>
</table>

**Key considerations of ISAE 3402/SSAE 16**

The standards ISAE 3402 and SSAE 16 require that management of the service organisation provide a written assertion attesting to the fair presentation and design of controls (in a Type 1 report) or the fair presentation, design, and operating effectiveness of controls (in a Type 2 report). This written assertion is separate from the written representations obtained from management.

Under these standards, engagements are considered ‘assertion-based’: management is required to provide a written assertion, even though the auditor will continue to report on the subject matter (i.e. whether controls are fairly presented, suitably designed, and (in a Type 2 report) operating effectively).

In order to provide a written assertion, management will need to have a reasonable basis for making the assertion, which may include developing their own processes to support the assertion if such processes are not already in place. ISAE 3402 and SSAE 16 provide specific requirements that management must meet in order to provide a written assertion. For instance, management is required to:

- Select suitable criteria, which will be used to prepare its description of the system as well as to evaluate whether controls were suitably designed (Type 1 report) or suitably designed and operating effectively (Type 2 report)
- Identify the risks that threaten the achievement of the control objectives stated in the description

Therefore, management is not able to rely solely on the testing performed by the service auditor to provide their assertion.
If the service organisation relies on controls at a subservice organisation and management elects to use the inclusive method (that is, management’s description of the service organisation’s system includes controls at the subservice organisation), management will also need to determine whether controls at the subservice organisation are suitably designed or suitably designed and operating effectively, depending on whether they are executing a Type 1 or Type 2 report.

In order to make this determination and to support their own assertion, management of the service organisation would need to obtain a written assertion from management of the subservice organisation. If the management of a service organisation does not provide an assertion, the service auditor will not be able to accept the engagement.

Management written assertion: example activities.

<table>
<thead>
<tr>
<th>Example Procedures</th>
<th>Service auditor performs testing and issues report</th>
<th>Management monitoring documentation</th>
<th>Internal audit reporting</th>
</tr>
</thead>
<tbody>
<tr>
<td>Supporting Documentation</td>
<td>None</td>
<td>Management risk assessment documentation</td>
<td>Regulatory reporting</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Independent risk assessment results</td>
</tr>
</tbody>
</table>

* Reasonable basis for management assertion *

- Ongoing monitoring
- Separate evaluations
- SOX testing
- Management or independent assessment of operating effectiveness of controls

- Management reporting and other oversight activities
- Management risk assessment
- Internal audit testing/monitoring
- Independent regulatory examination
- Independent risk assessment

* A combination of ongoing monitoring and separate evaluations will usually help ensure that internal control maintains its effectiveness over time.
Which standard to follow?
In many cases, the determination of whether to follow the standards of ISAE 3402 or the SSAE 16 will be clear. SSAE 16 will be the standard used for service organisations located and operating in the U.S. while the ISAE 3402 standard will be used by all other companies.

However, with the continuing globalisation of business, many service organisations have operations and/or customers within as well as outside the U.S. In these cases, the determination of which standard to use may not be as clear. Many may wish to consult with their auditor to assist in the decision.

Due to the efforts of the AICPA to converge the SSAE standard with the international standard ISAE 3402, the two standards are fairly similar. Thus, it is possible for a service organisation to have an examination performed under both sets of ISAE 3402 and SSAE 16 standards.

Principal differences between ISAE 3402 and SSAE 16

<table>
<thead>
<tr>
<th>Use of report</th>
<th>U.S. standard: SSAE 16</th>
<th>International standard: ISAE 3402</th>
</tr>
</thead>
<tbody>
<tr>
<td>Intentional acts</td>
<td>Report required to specifically state that it is restricted to the intended users</td>
<td>Report required to state that it is only intended for user entities and their auditors, but may also include restrictive use language</td>
</tr>
<tr>
<td>Subsequent events</td>
<td>Service auditor considers impact of intentional acts on the report</td>
<td>Silent on this requirement</td>
</tr>
<tr>
<td>Reporting</td>
<td>Service auditor to consider Type 2 subsequent events after the report date</td>
<td>Does not require auditor to consider events after the report date</td>
</tr>
<tr>
<td></td>
<td>Does not enable a service auditor to conclude that a deviation identified when performing tests of controls involving sampling is not representative of the population from which the sample was drawn</td>
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</tr>
</tbody>
</table>
Outsourcing is a growing trend and companies increasingly depend on third-party providers to deliver critical services. Companies that just ten years ago may have used only one or two major third-party services providers often depend on many providers to deliver any number of services, including:

- Information technology
- Finance and accounting
- Customer care
- Human resource and benefits management
- Payment and administration
- Custody
- Fund administration
- Transfer agency

Consequently, outsourcing companies are looking for third-party assurance to provide their clients with comfort about their internal control environment. Replacing SAS 70, ISAE 3402/SSAE 16 standards will remain the most widely employed approach to demonstrate third-party assurance, providing coverage to users of outsourced services. ISAE 3402/SSAE 16 reporting, in coordination with your internal control assessment activities, can help:

- Identify your company’s most business-critical, process-based relationships
- Pinpoint existing internal and outsourcing organisation gaps in processes and controls that may increase risk
- Enhance existing activities with a more encompassing framework for internal controls - one that achieves compliance with Sarbanes-Oxley financial reporting control requirements and helps improve internal risk management and business partner performance

Our ISAE 3402/SSAE 16 services can bring an organisation value through improved third-party risk management and performance, and include:

- Determining the spectrum of required ISAE 3402/SSAE 16 coverage required
- Executing ISAE 3402/SSAE 16 examinations for outsourcers and service providers
- Expanding the scope of ISAE 3402/SSAE 16 reporting based on assessment

Taking the mystery out of ISAE 3402 and SSAE 16
Benefits of the ISAE 3402/SSAE 16 examination

One-stop shopping
Hiring an independent service auditor to perform the review allows the organisation to be subjected to just one internal controls audit. Upon completion, the report is distributed to the service organisation’s users so that their auditors may rely upon its opinion and findings and subsequently limit or eliminate additional substantive audit procedures. It can help:

• Reduce the impact on your resources by minimising disruption from other outside parties
• Reduce operating costs for your clients, due to the fact that they will no longer have to send auditors to audit your organisation

A “must have”
With the recent heightened awareness to operational risk management, more and more clients of service organisations are requesting a service organisation control report to provide comfort over the processing control.

The benefits are:

• Strengthening your organisation’s reputation
• Assisting in fulfilling your customers’ and their independent auditors audit responsibilities
• Demonstrating that controls are designed and implemented based on an accepted internal control framework (e.g. COSO)
• Providing a control environment independent examination under a standard recognised internationally

Risk management tool
ISAE 3402/SSAE 16 reports provide management with greater comfort over the organisation environment and a basis for reliance on controls mitigating your (and your clients’) risks with a focus on financial reporting.

Training tool
Management can use ISAE 3402/SSAE 16 reports to provide employees with key information about the organisation and how transactions are processed as well as providing with a better understanding of the global objectives of the business and foster control discipline across organisation over control environment soundness.

Assessment tool
ISAE 3402/SSAE 16 reports provide management with an independent assessment of the control procedures’ adequacy and ‘reasonable assurance’ over the processing control environment operating effectiveness that impacts user entities’ internal control over financial reporting.

It illustrates the positive effects of properly functioning and articulated control environment to an organisation’s senior management and can assist to reduce the likelihood of unwanted surprises:

• Identifying and documenting your control objectives
• Analysing the effectiveness of your control activities
• Helping identify process and technology weaknesses
• Identifying opportunities for improvement throughout audited operational areas
• Determining the consistency with which your controls are applied throughout the organisation
• Standardising the processes among multiple services
• Assessing the strength of your management oversight

Service organisation control reports, now more than ever...
The Deloitte ISAE 3402/SSAE 16, making the difference

Our ISAE 3402/SSAE 16 leadership
Our global Enterprise Risk Services practice
Our global Enterprise Risk Services (ERS) practice has more than 11,000 professionals in more than 60 countries. These professionals are fully dedicated to providing ISAE 3402/SSAE 16, control assurance, internal audit and risk consulting services to a broad array of clients around the world.

Our network of dedicated ISAE 3402/SSAE 16 professionals
Deloitte specificity in providing ISAE 3402/SSAE 16 services is that our network of ERS practitioners comprises dedicated, full time professionals, not part-timers on loan from other practices.

Our globally integrated ISAE 3402/SSAE 16 services
Our ISAE 3402/SSAE 16 methodology, training resources, technical knowledgebase and internal quality reviews are integrated and coordinated globally and regionally so as to ensure consistency and the highest quality in the delivery of our ISAE 3402/SSAE 16 services all over the world.

Our strong experience in performing service organisation control examinations
We believe our experience in providing specialised service organisation control assurance examinations to many of the world’s leading companies speaks clearly for our ability to provide you with high-quality ISAE 3402/SSAE 16 services.

Our ISAE 3402/SSAE 16 distinctive approach
Choosing Deloitte
In choosing Deloitte as your ISAE 3402/SSAE 16 source, you are choosing the only firm that is able to offer the vast array of services required to address such a multidisciplinary challenge. The result is a report informed by true 360-degree vision, one that takes into account every aspect of your operations and provides comprehensive third-party assurance worldwide. We can deliver superior ISAE 3402/SSAE 16 performance because we see your business with a broader and deeper perspective.

Depending on our client’s readiness level, we provide customised services designed to:

- ISAE 3402/SSAE 16 readiness assistance
- Type 1 ISAE 3402/SSAE 16 examination
- Type 2 ISAE 3402/SSAE 16 examination
- Local control report transformation into Type 2 ISAE 3402/SSAE 16 examination

Our business partnering approach
At Deloitte, we have the depth and breadth within our organisation to deliver leading practices to you on industry and ISAE 3402/SSAE 16 matters. We work with our clients to proactively identify value-added business insights, provide suggestions for improvement throughout the engagement as well as ensuring a smooth and consistent process.
Below we have highlighted what we believe are a few of the key elements that distinguish Deloitte as unique in our ability to provide superior ISAE 3402/SSAE 16 services:

- Insight on ISAE 3402/SSAE 16 report improvements
  We aim to continuously provide our clients with comparative information on the quality of ISAE 3402/SSAE 16 reports versus other reports in the industry. We strive to add value to the process by identifying ways to remove ambiguities from the reports to provide a crisp and clear picture of the control environment to the report users and their auditors.

- Enhancements to controls and processes
  We proactively look for opportunities throughout our ISAE 3402/SSAE engagements to provide our clients with insights and commentary related to enhancements to controls or processes based upon our extensive service organisation control experience and our knowledge of the leading edge of industry trends and developments.

- Use of industry experts
  We bring our outstanding pool of recognised industry experts to support our core engagement team in their service delivery responsibilities. We believe that the availability of industry experts is a key differentiating factor that brings a comprehensive and business oriented view to your operations and enables us to focus and emphasise those areas that are crucial for you and your customers and to advise you in a proactive manner on best practices and potential procedure improvement in addition to the pure examination work required by the audit standard governing ISAE 3402/SSAE examinations.
• Proactive ideas on ISAE 3402/SSAE 16 guidance
We proactively advise our clients on movements occurring relative to guidance within ISAE 3402/SSAE 16 environment, bringing both practical comments and innovative ideas for positioning our clients to forefront of the ISAE 3402/SSAE 16 reporting trends.

• Proactive, open-minded and timely service
Our technical expertise is delivered to our clients through our service philosophy, which emphasises open, honest and frequent communication with management. Consistent with our service policy, we are committed to frank discussions to ensure the smooth completion of ISAE 3402/SSAE 16 with no surprises and within the stated deadlines. We work side-by-side with our clients to meet deadlines and resolve issues on a timely basis.

• Streamlining of the ISAE 3402/SSAE 16
As articulated above, we have a centralized and uniform firmwide approach to managing the execution and delivery of our ISAE 3402/SSAE 16 to ensure a streamlined process and the highest quality and consistency and in all our clients’ different locations.

Our firmwide approach includes the use of a dedicated proprietary tool consistently applied globally, centralised training resources, technical knowledgebase and internal quality reviews integrated and coordinated globally and regionally. Accordingly all reports are issued under the same firm guidance and all the ISAE 3402/SSAE 16 reports are delivered consistently and with the highest quality.
Why Deloitte?

Our outstanding people
We know that our reputation for client satisfaction and integrity is completely dependent on making the quality and experience of our people a top priority. The result of this commitment is our status as a firm uniquely dedicated to its people, a status that has been recognised by several industry experts.

Industry expertise
Deloitte is built around specialised industry groups that enable our practitioners to capitalise on our core knowledge of industry-specific trends and issues. This means that, no matter what specific industry segment a service organisation is in, we have the necessary expertise and knowledge to deliver a tailored focused ISAE 3402/SSAE 16. The Deloitte ISAE 3402/SSAE 16 is delivered through dedicated knowledge of your industry.

The Deloitte ISAE 3402 and SSAE 16: the standards by which controls are measured
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