



Ms. Sharon Macey
Audit and Attest Standards
American Institute of Certified Public Accountants
1211 Avenue of the Americas
New York, NY 10036-8775

December 23, 2014

RE: Proposed Statement on Standards for Attestation Engagements, *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting: Clarification and Recodification*

Dear Ms. Macey:

We appreciate the opportunity to comment on the proposed Statement on Standards for Attestation Engagements, *Reporting on an Examination of Controls at a Service Organization Relevant to User Entities' Internal Control Over Financial Reporting: Clarification and Recodification* (the proposed SSAE). We support the clarity redraft of the attestation standards and commend the Auditing Standards Board (ASB) on this important step in that effort.

We offer the following suggestions for the ASB's consideration in finalizing the proposed SSAE.

Issue for consideration

We agree with the ASB's decision, which is reflected in this proposed SSAE, to retain in the subject-matter specific standards all of the required reporting elements even though some of them may be repetitive with those in the examination, review or agreed-upon procedures chapters. We believe it is important not to lose clarity or nuances of meaning simply to avoid repetition, which is why we continue to recommend, as stated in our comment letter on the Phase I proposal, that all of the requirements related to management representations required by chapter 2, "Examination Engagements," chapter 3, "Review Engagements," or chapter 4, "Agreed-Upon Procedures Engagements," as relevant, be included in the subject-matter specific chapters, including in this proposed SSAE, as this would help practitioners easily identify all of the required representations in one place, even if it is somewhat repetitive.

Information that is not covered by the service auditor's report

Paragraphs 8.37(c)(iii) and 8.38(c)(iii) require identification in the service auditor's type 2 and type 1 reports, respectively, of "any information included in a document containing the service auditor's report that is not covered by the service auditor's report." We believe the proposed SSAE would be enhanced by adding new application guidance as shown below to provide examples of such information.

8.A58A Examples of information included in the document containing the service auditor's report that is not covered by the service auditor's report may include disaster recovery, privacy policies, and significant changes that occurred during a gap period from a prior issued report (e.g., a report period of 1/1/14-9/30/14 and subsequent report period of 1/1/15-9/30/15 would have a 3-month gap since the prior period report).

References to paragraph 8.A58A should also be added after 8.37(c)(iii) and 8.38(c)(iii).



Determining whether management’s description of the service organization’s system is fairly presented

Paragraph 8.A35 of the proposed SSAE includes questions that may assist the service auditor in determining whether management’s description of the service organization’s system is fairly presented, in all material respects. We suggest adding another question, as shown below, as the penultimate bullet in the list:

- If the carve-out method has been used, does management’s description of the service organization’s system separately identify the name of the subservice organization?

Service auditor’s responsibility to determine that the suitability of the controls designed by management includes implementation

We believe that paragraph 8.25 should acknowledge that the service auditor’s responsibility to assess whether controls were suitably designed to achieve the control objectives includes determining that the controls were implemented. We recommend adding a new subparagraph “c” as shown below:

8.25 The service auditor *should* determine which of the controls at the service organization are necessary to achieve the control objectives stated in management’s description of the service organization’s system and *should* assess whether those controls were suitably designed to achieve the control objectives by (Ref: par. 8.A26-8.27 and 8.A39-8.A42)

- a. identifying the risks that threaten the achievement of the control objectives stated in management’s description of the service organizations system, ~~and~~ (Ref: 8.A39)
- b. evaluating the linkage of the controls identified in management’s description of the service organization’s system with those risks, **and**
- c. **determining that the controls have been implemented.**

Convergence

The Explanatory Memorandum to the proposed SSAE states:

SSAE No. 16, *Reporting on Controls at a Service Organization*, was converged with International Standard on Assurance Engagements 3402, *Assurance Reports on Controls at a Service Organization*, when it was issued in April 2010 and codified as AT section 801. Any differences between the requirements in the two standards are identified in Exhibit B, “Comparison of Requirements of Statement on Standards for Attestation Engagements No. 16, *Reporting on Controls at a Service Organization*, With Requirements of International Standard on Assurance Engagements 3402, *Assurance Reports on Controls at a Service Organization*.”

Exhibit B in the proposed SSAE is “Illustrative Assertions by Management of a Service Organization.” The proposed SSAE does not include any appendix or exhibit that identifies differences between its requirements and those of ISAE 3402. We believe the ASB should update the appendix based upon the final standard and include this information with the proposed SSAE when it is published as a final standard.



Refusal to provide written assertion

Paragraph 8.10(b)(vi) requires management to provide a written assertion that accompanies management’s description of the service organization’s system, both of which will be provided to user entities, as one of the conditions for engagement acceptance and continuance. We believe the following requirement based on AT 801.10 should be added to paragraph 8.10(b)(vi):

If management will not provide the service auditor with a written assertion, the service auditor should not circumvent the requirement to obtain an assertion by performing a service auditor’s engagement under chapter 2.

The Appendix to this letter includes additional editorial comments on the proposed SSAE.

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We appreciate the opportunity to express our views and would be pleased to discuss our comments or answer any questions you may have. Please contact Marc Panucci (973-236-4885) regarding our submission.

Sincerely,

PricewaterhouseCoopers LLP



APPENDIX

This Appendix provides our editorial comments on the proposed SSAE. New language is in **boldface italics**; deleted text is in ~~strikethrough~~.

Par. 8.8(a): In the definition of carve-out method, we suggest adding a comma after the words “subservice organization” and deleting the comma after the words “service auditor’s engagement” as shown below:

Carve-out method. Method of addressing the services provided by a subservice organization whereby management’s description of the service organization’s system identifies the nature of the services performed by the subservice organization, and excludes from the description and from the scope of the service auditor’s engagement, the subservice organization’s relevant control objectives and related controls.

Par. 8.8(g)(ii): We recommend adding a comma after the word “whether” in this subparagraph. This is also consistent with the presentation in paragraph 8.8(h)(ii).

Par. 8.8(k): In the definition of “service organization’s assertion” there are two references to “the matters referred to in part (b)” of the definitions of the type 2 and type 1 reports; however, the definitions of type 2 and type 1 reports do not include a subparagraph (b). We recommend replacing these references with the words “the matters referred to in part (ii)” of the respective definitions.

Par. 8.A29: In the last line of the third bullet, insert “specified” before “period.”

Par. 8.A35: In the fifth bullet point of this paragraph we recommend adding a parenthetical reference to paragraph 8.A7.

Par. 8.A39: Add an “end paren” after the parenthetical reference at the end of this paragraph.

Par. 8.29(a): We suggest modifying this paragraph as follows: “perform other procedures **such as inspection, observation or reperformance** in combination with inquiry to obtain evidence about the following”

Par. 8.A65: We suggest extending the references in footnote 31 to this paragraph to include paragraph 2.A93 since that paragraph is the source for the language about the potential for misunderstanding if the report is taken out of the context in which it was intended to be used.

Pars. 8.37(i) and 8.38(i): These paragraphs require that a description of the inherent limitations of controls be included in the service auditor’s type 2 and type 1 reports, respectively, including that “conclusions about the suitability of the design or operating effectiveness of the controls to achieve the related control objectives is subject to the risk that controls at a service organization may become ineffective or fail.” We suggest striking “or fail” from this description because “fail” seems to relate more to operating effectiveness than to suitability of design and we believe that “ineffective” relates to both.

Par. 8.38(l)(ii): We believe the footnote reference to this paragraph should be replaced with a reference that reads: “Paragraph 2.55(d-f) or 2.55(g-h) of chapter 2, if applicable,” to be consistent with the footnote reference at paragraph 8.37(l)(ii).

Par. 8.A69: Add an apostrophe after “Entities” in the title of the AICPA guide.



Exhibit A: In the example of the type 1 service auditor's report, when a statement is added to the report when complementary user entity controls are required to meet the control objectives, we suggest adding the words shown below to the illustrative language so that it is consistent with the same disclosure that appears in the example of a type 2 service auditor's report:

Our examination did not extend to such complementary user entity controls and
wWe have not evaluated the suitability of the design or operating effectiveness of such
complementary user entity controls.