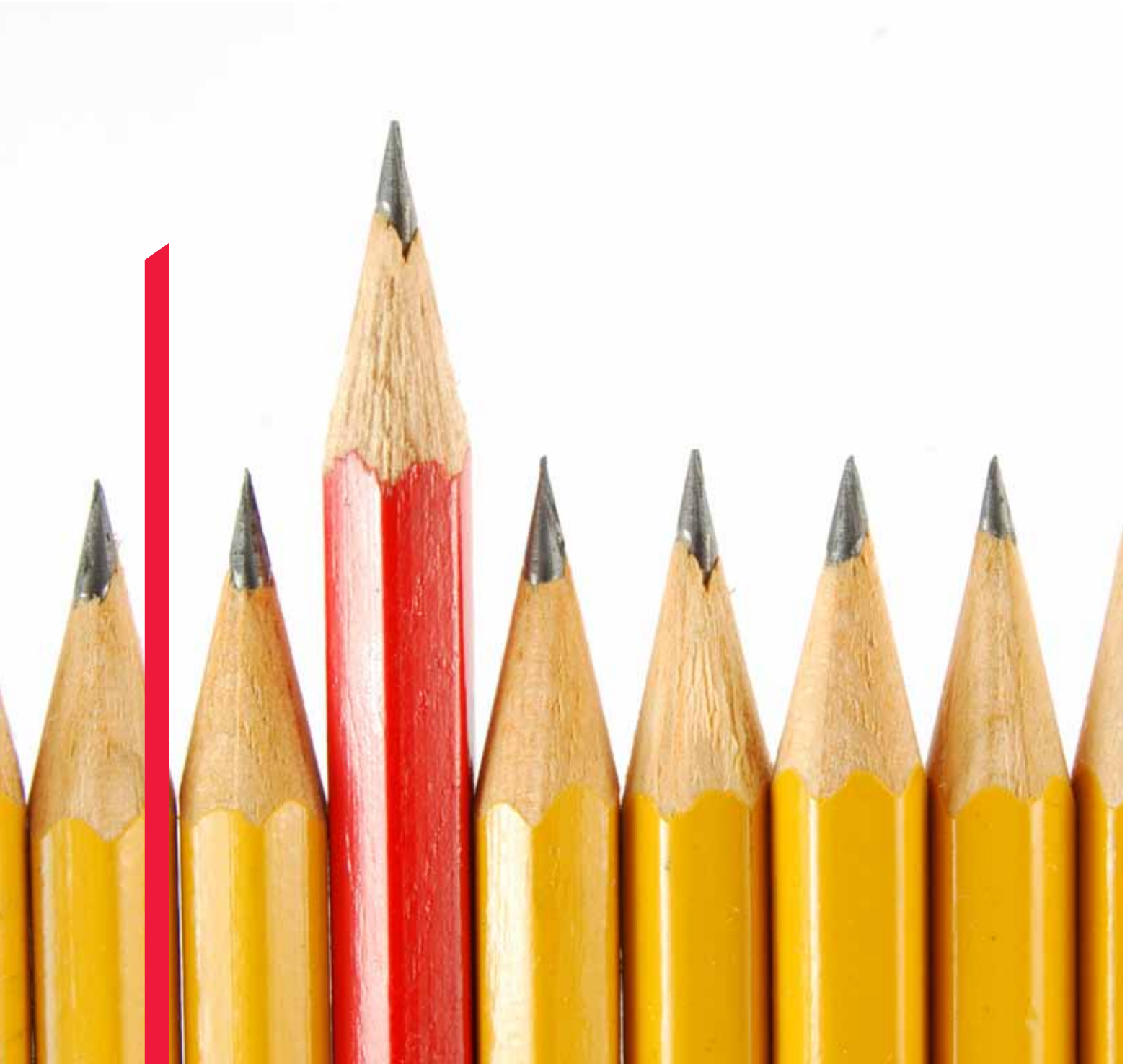


# SERVICE AUDITOR'S REPORT





Service Auditor's Reports, also known as Service Organization Control Audits, are designed to provide information and assurance on controls within a service organization (such as data centres, application service providers, clearing houses, real estate management service providers, etc.). As more challenges and risks arise in the current marketplace, implementing a Service Auditor's Report can help service organizations:

- Meet client expectations and contractual commitments
- Distinguish themselves from their competitors by taking a proactive approach to controls, thereby providing a competitive advantage
- Lower inherent risks by identifying and addressing potential weaknesses in their systems

Performing assurance type audits are growing in importance, but the accompanying complex technical terminology and stringent requirements make them confusing and challenging to implement. This guide should help you understand Service Auditor's Reports and match the needs of your service organization to the appropriate report to meet your business objectives.

### **The value of a Service Auditor's Report**

Service Auditor's Reports are used by the service organization and its clients or the clients' auditors to understand the internal controls placed in operation at the Service Organization.

**For the clients' auditors:** They can use the report to gain an understanding of the internal controls in operation at the Service Organization. Depending on the type of report, the clients' auditors may consider the service organization's internal controls in planning and executing its CEO/CFO certification review and financial statement audit, or gain confidence in the controls in place to protect sensitive information.

**For the clients, prospects, stakeholders and other interested parties:** The Service Auditor's Report helps these groups understand and gain confidence in the internal control environment of the service organization.

**For the service organization:** The Service Auditor's Report can offer many benefits, including:

- Minimizing the need to deal with the clients' respective auditors, which can be very intrusive and time-consuming when multiple auditors are involved

- Helping reduce client audit fees by minimizing the effort of the external auditors required to audit the service organization controls (the cost of the process is normally passed to the client through service charges)
- Helping to demonstrate that there are processes and procedures in place to ensure that the services being outsourced are managed properly, which can be a key factor in obtaining new business; most request for proposals nowadays require a Service Auditor's Report from the service organization
- Providing support to justify the fees paid by clients and pass along increases as they become warranted; the process demands communication between the service organization and its clients, which clarifies the internal control processes in place at the service organization

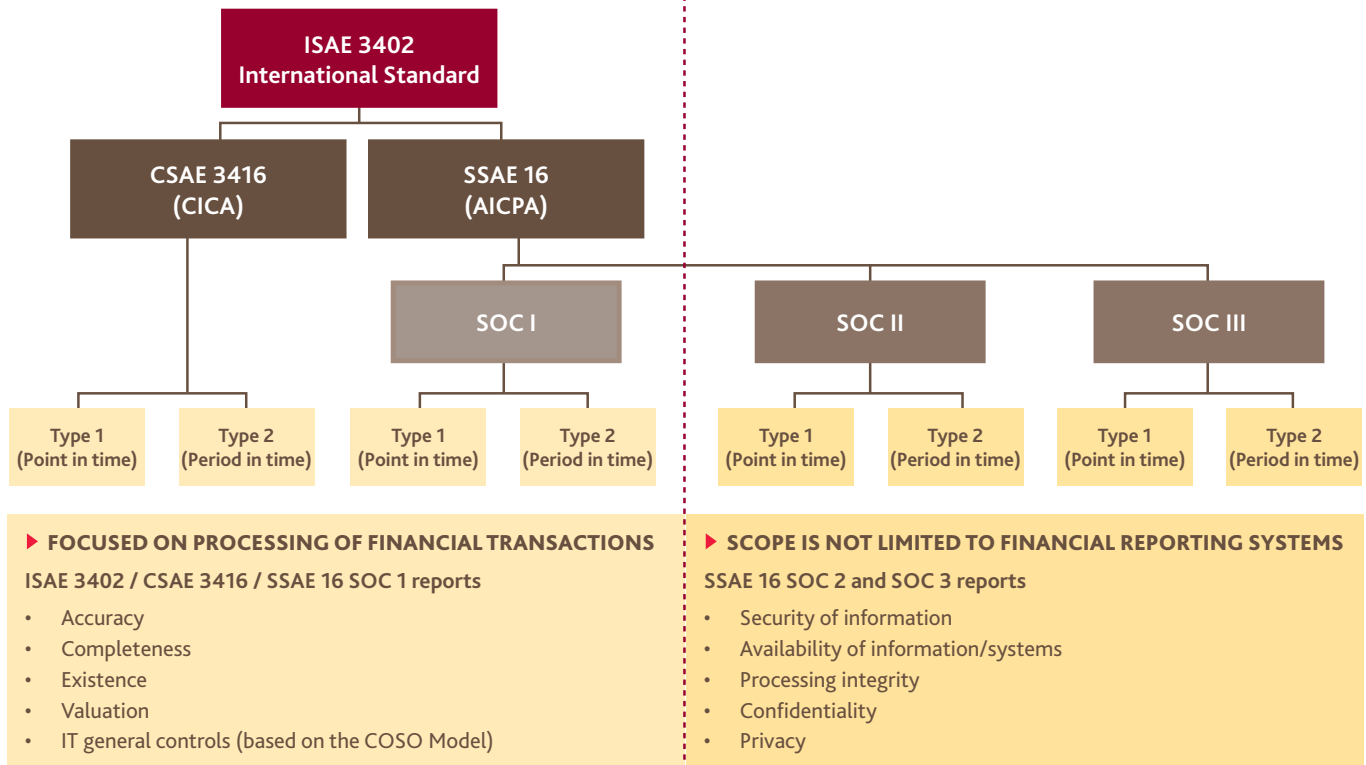
- Identifying efficiency issues as well as duplicate controls in an effective and proactive way

**BDO's Service Auditor's Reports**

BDO offers several types of reports, which can be divided into two basic groups:

1. Reports specifically focused on systems involved in the processing of financial transactions
2. Reports focused on information security, availability, integrity, privacy, and confidentiality

**SERVICE AUDITOR'S REPORT HIEARCHY**



### Reports to satisfy financial requirements

The (CICA) CSAE 3416 and (AICPA) SSAE 16 and 3402 SOC 1 Service Auditor's Reports focus on the controls involved in processing financial transactions by a service organization. They are conducted in accordance with CICA Handbook issued by the Canadian Institute of Chartered Accountants (CICA) or the American Institute of Certified Public Accountants (AICPA).

Both of these reporting standards satisfy the International ISAE 3402 requirements, but have minor modifications that are country dependant. In developing these new standards, stakeholders expressed a strong view for reporting consistency with the US to maintain a North American consistency. The Auditing & Assurance Standards Board (AASB) decided to develop the Canadian standard using the SSAE as a base, with modifications only where necessary to meet unique Canadian circumstances. To the extent that ISAE 3402 and the SSAE are harmonized, the CSAE 3416 has also been aligned, with ISAE 3402.

These assurance reports (ISAE 3402 / CSAE 3416 / SSAE 16) relate to the control objectives and controls established by a service provider relating to financial aspects of their business, including:

- Accuracy
- Completeness
- Existence
- Valuation
- IT general controls (based on the COSO Model)
  - Monitoring
  - Physical and logical access
  - Change management

Based on these standards, the following is an overview of what is required of a Service Organization for a CSAE3416 or SSAE 16 SOC 1 report.





**Description of system:** Management must prepare and present a complete and accurate description of the system, rather than just the controls for a service organization.

**Risk assessment:** Management must conduct a formal risk assessment to identify risks that threaten the achievement of the control objectives. While these do not have to be included in the report, the service auditors will have to review the risk assessment process and the basis for the service organization's conclusions.

**Identification of control objectives:** Management to specify the control objectives of the system and state those control objectives in the description of the system.

**Controls in place to mitigate risks:** Controls must be in place to address and mitigate the risks identified in the risk assessment. The service organizations will have to design, implement, and maintain controls to provide reasonable assurance that the control objectives will be achieved.

**Management assertion:** Management must provide a written assertion as to the completeness and accuracy of the information provided and state the criteria used as a basis for making the assertion.



### Reports to satisfy requirements other than financial

Businesses that outsource the processing or custody of their information (such as a data centre) are looking for assurance that it will remain confidential, available based on agreements, and secure against unauthorized access. The (AICPA) SSAE 16 SOC 2 & SOC 3 Service Auditor's Reporting standards have been developed to provide organizations that outsource the collection, storage, or transmission of information, a mechanism to assess the oversight and governance at the service organization. This can be particularly important when the physical location is impractical to inspect due to its geographical location, or if located in "the cloud".

The SOC 2 and SOC 3 reports are not limited to financial systems, but rather based on five key principles:

- Security of information
- Availability of information/systems
- Processing integrity
- Confidentiality
- Privacy

The SOC 2 & SOC 3 reports also provide service organizations with a method to differentiate themselves and demonstrate to current and prospective clients that they have adequate controls and safeguards relating to hosting or processing information through an in-depth audit. of the trust service principles must be assessed; providers may select the principles that meet their reporting objectives and nature of business. For each principle, there is underlying criteria (or controls to support the specific principle) that is pre-defined, allowing for standardization reporting. These trust service principles and criteria are further sub-divided into four broad areas: policies, communications, procedures, and monitoring.

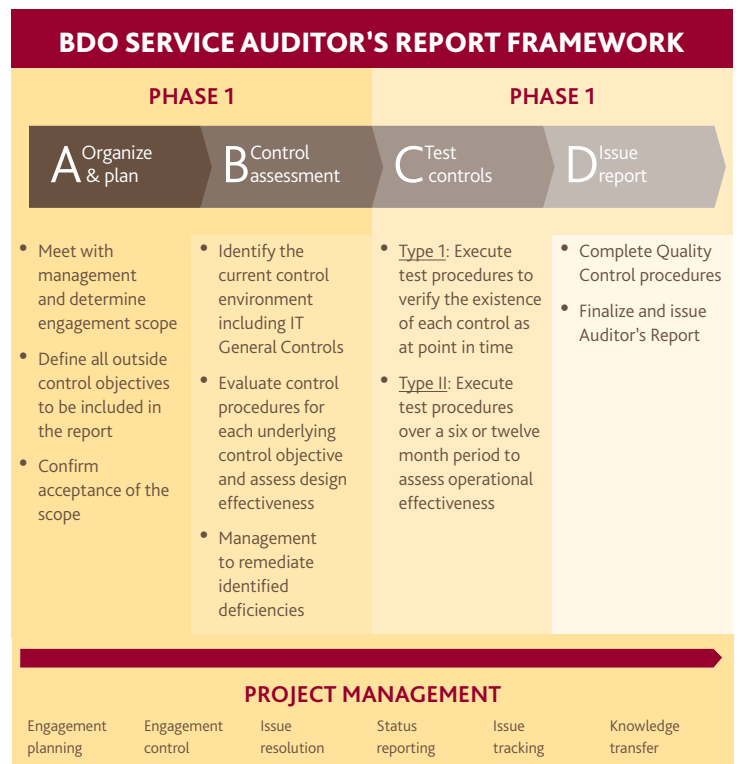
**BDO'S audit process and framework**

The general steps within a Service Auditor's Report process follow the traditional audit approach, but may differ based on the service organization's current control environment. A typical engagement would include:

1. Consulting with management and involved parties to understand the service organization's business processes, control environment and control components; we can assist in the process of determining the appropriate report to achieve your reporting objectives
2. Providing guidance to management on the adequacy of their control objectives, principles and controls as they relate to their environments and their respective industries, prior to testing
3. Preparing a draft report to be reviewed by the service organization for accuracy and completeness of the details
4. Performing on-site testing at various points in time during the reporting period to determine the effectiveness of the controls placed in operation and the operational effectiveness of the controls for Type II reports; testing typically includes inquiry, inspection of documents and records, and observation of activities to which the extent will vary depending on the scope of the report (including type and the period covered)
5. Delivering a management letter to senior management for any control deficiencies uncovered during the course of the audit
6. Issuing the Service Auditor's Report in hard copy and/or electronic format

Our framework, which was developed to bring an efficient approach to performing audits, will:

- Reduce your time commitment during the audit process
- Deliver a report that covers the requirements of your clients, their auditors, and other regulatory bodies
- Provide observations to improve your internal controls and operational efficiencies



### Why choose BDO?

We work closely with service organizations and tailor our approach to meet the unique needs of each one. Our pragmatic methodology is flexible and customizable to the service organization's needs. Our dedicated team assists them by:

- Developing a solution that fits with the service organization's resources and needs
- Leveraging existing templates and expertise to accelerate the process
- Identifying potential issues aside from those listed in the audit requirements
- Taking a proactive approach to address these with the client to further reduce risk

Our audit process of an outsourced service provider includes the following high level steps:

- Assess the current state of operations
- Evaluate the operational effectiveness of controls
- Understand the expectations of your customers and their auditors
- Implement practical internal control monitoring and remediation processes, as required

Our BDO Risk Advisory Services Team consists of experienced professionals who possess CA experience combined with industry expertise to recognize the foresight, understanding and complexity of work required to implement an effective Service Auditor's Report.

### About BDO in Canada

BDO is one of the leading accounting and advisory firms in Canada with over 100 offices from coast to coast. With 90 years of experience serving Canadian businesses, we have the expertise to serve owner-managed, large and mid-market companies, communities and non-profits in a broad range of industries. Our team of partners and professionals offers value-added services to our clients, with a strong focus on business and community relationships.

### BDO around the world

The international BDO network is comprised of public accounting firms around the world, called BDO Member Firms. We are the fifth largest accounting and advisory network in the world, with a full range of related services tailored to each respective locale. As part of this worldwide network, our Canadian member firm has access to more than 1,000 offices in over 100 countries.



## Contact BDO

National  
Sam Khoury  
416 369 6030  
skhoury@bdo.ca

Central Canada  
Carlo Mariglia  
416 369 3078  
cmariglia@bdo.ca

David Knott  
416 815 3016  
dknott@bdo.ca

Eastern Canada  
Pierre Taillefer  
514 934 7806  
ptaillefer@bdo.ca

[www.bdo.ca](http://www.bdo.ca)