



**By e-mail < [Edcomments@ifac.org](mailto:Edcomments@ifac.org) >**

25 June 2008

Our Ref.: C/AASC

Executive Director, Professional Standards  
International Auditing and Assurance Standards Board,  
International Federation of Accountants,  
545 Fifth Avenue, 14<sup>th</sup> Floor,  
New York 10017, USA.

Dear Sir,

**[IAASB Exposure Draft of proposed ISAE 3402 Assurance Reports on Controls at a Third Party Service Organization](#)**

The Hong Kong Institute of Certified Public Accountants is the only statutory licensing body of accountants in Hong Kong responsible for the professional training, development and regulation of the accountancy profession. The HKICPA sets auditing and assurance standards, ethical standards and financial reporting standards in Hong Kong.

We welcome the opportunity to provide you with our comments on the captioned IAASB Exposure Draft to address the fact that many entities have decided to outsource a variety of functions, including some related to accounting and reporting in order to focus on core competencies and derive cost savings. Auditors of those entities need to consider the implications of this outsourcing for the entity's financial reporting process, including consideration of controls that are maintained by the service organization.

Because a service organization usually services many user organizations, it is generally not practical for all user auditors to perform audit procedures at the service organization. Therefore, a service organization will often request a service auditor to issue a report on controls at the service organization. User auditors use these reports in their risk assessment at user organizations.

The scope of this IAASB Exposure Draft deals with reasonable assurance engagements undertaken by a professional accountant (service auditor) to report on the controls at a third party organization that provides a service to user entities when those controls are likely to be part of user entities' information systems relevant to financial reporting.

We support the proposed ISAE and consider that generally the objectives to be achieved by the service auditor, as stated in the proposed ISAE, are appropriate. Furthermore, the criteria identified by the IAASB for determining a requirement has been applied appropriately and consistently such that the resulting requirements will promote consistency and the use of professional judgement by the service auditor. Our comments on the significant proposals in the proposed ISAE are set out in the attachment.

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We trust that our comments are of assistance to you. If you require any clarifications on our comments, please do not hesitate to contact me at [ong@hkipa.org.hk](mailto:ong@hkipa.org.hk).

Yours faithfully,

Steve Ong, FCA, FCPA  
Deputy Director, Standard Setting

SO/SH/ac  
Encl.



**ATTACHMENT**

**HONG KONG INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS' COMMENTS ON THE  
IAASB EXPOSURE DRAFT OF ISAE 3402 ASSURANCE REPORTS ON CONTROLS AT A  
THIRD PARTY SERVICE ORGANIZATION**

**Request for Specific Comments**

1. **The proposed ISAE was written for application to assertion-based engagements. Are there any situations in which it would not be possible or practicable for management of the service organization to provide an assertion?**

We are not aware of any situations in which it would not be possible or practicable for management of the service organization to provide an assertion in a statement made available to intended users that accompanies the description of the system. We consider that it is appropriate as it includes an explicit acknowledgement by management of the service organization to the user entities, of its responsibility for the fair presentation of the description of the system, the suitable design of controls and, in the case of a Type B report, the operating effectiveness of controls.

However, as the proposal involves the service organization in making the assertions, we are of the view that there is a need for additional implementation guidance to help management.

2. **The inclusion in the proposed ISAE of a number of requirements based on ISAs dealing with matters such as using the work of the internal audit function, sampling, documentation, and using the work of a service auditor's expert. In particular, has the IAASB identified all such matters as are relevant? And should these matters be dealt with in proposed ISAE 3402 or in ISAE 3000?**

- (a) In addition to those identified, we believe the requirements in the following ISAs are also relevant:

- Exposure Draft on ISA 265 *Communicating Deficiencies in Internal Control*

The proposed ISAE, as currently drafted, does not provide guidance for the service auditor to discuss with management when they become aware that the description of the system is incomplete or inappropriate or there are design deficiencies or when control procedures are not operating effectively so that the directors may amend the description or rectify the design deficiency or control procedure.

We recommend the IAASB to include additional guidance, such as that in the proposed ED of ISA 265, on how the service auditor should communicate to the management in such circumstances and the impact on the assurance report.

- Exposure Draft on ISA 250 (Redrafted) *The Auditor's Responsibilities Relating to Laws and Regulations in an Audit of Financial Statements*

In some jurisdictions (e.g. Hong Kong), there are regulations requiring a similar engagement for reporting on controls at a third party service organization.

We are of the view that there should be additional guidance on the auditor's responsibilities where there are laws and regulations requiring such engagements.



- (b) We support the proposed approach where the relevant ISAs identified as appropriate for a particular engagement be adapted as necessary and included in the proposed ISAE.

We believe it is not necessary to include the requirements from the relevant ISAs in ISAE 3000 as ISAE 3000 is a more general standard establishing the basis principles for the conduct of assurance engagements unless the requirements and guidance are generic and would be expected to apply in all assurance engagements. We are of the view that the proposed ISAE 3402 should be a stand-alone standard and include all relevant requirements.

**3. Whether ISAE 3000 should be amended with respect to auditor’s external experts?**

If the revised definition of engagement team that “specifically excludes ‘an auditor’s external expert’ from the engagement team” is ultimately adopted in the proposed ISQC 1 (Redrafted) and the International Federation of Accountants’ Code of Ethics for Professional Accountants, it will affect all ISAEs, including ISAE 3000 and the proposed ISAE 3402. In recognition of this, paragraph 26 of the proposed ISAE 3402 has included the relevant requirements. Therefore, if and when this definition is adopted, we believe that the IAASB should amend ISAE 3000 to be in line with the requirements in paragraph 26 of the proposed ISAE 3402.

**4. The proposed requirements regarding the minimum elements of suitable criteria.**

We believe that the proposed requirements in paragraphs 15 to 17 of the proposed ISAE are appropriate for evaluating whether the description of the system is fairly presented, controls are suitably designed, and controls have operated effectively.

**5. Whether the description of tests of controls included in a Type B report should include the disclosure of sample sizes determined by the service auditor only when a deviation from controls is found.**

We agree with the approach that the description of tests of controls included in a Type B report should include the disclosure of sample sizes determined by the service auditor only when there is a deviation from controls is found. The disclosure would provide intended users with relevant information as to the rate of deviation encountered in the sample and assists user auditors in the performance of their risk assessments.

**Other Comments**

**6. Using the Work of a Service Auditor’s Expert**

We note that the requirements for using the work of a service auditor’s expert in paragraphs 26 to 31 of the proposed ISAE are elevated from the Exposure Draft of ISA 620 *Using the Work of an Auditor’s Expert*.

However, we note that the additional guidance in ISA 620 in paragraphs 12(a) and (b) on evaluating the adequacy of the of the expert’s work have not been elevated to the proposed ISAE. We believe that the guidance is useful to the service auditor. We, therefore recommend that the IAASB include the necessary guidance from ISA 620.

**7. Reference to ISAE 3000**

We note that in paragraph 10 of the proposed ISAE, the service auditor shall comply with ISAE 3000. However, in the list of basic elements to be included in the assurance report, there is only a requirement for a statement to state that the engagement is performed in accordance with ISAE 3402 (paragraph 56(h)). We question whether it is also necessary to state compliance in accordance with ISAE 3000?

If there is a need to state that the assurance report is also conducted in accordance with ISAE 3000, corresponding amendments would also be required to be made in the examples reports in Appendix 2.

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