

The ASB has replaced the audit standard known as SSAE 16 with a new standard (known as SSAE 18), which is effective for report dates on or after May 1, 2017.

What does this change mean for service organisations? How does this impact the scope and purview of SOC attestations? What must services organisations and their auditors do to adopt this change?

This thought leadership paper, which contains views of our Managing Partner (Monish Gaurav Chatrath), explains.



The Auditing Standards Board ('ASB') has revised several existing attestation standards while developing a new ('SSAE') No. 18, which is referred to as SSAE 18.

The genesis of SSAE 18 emanates from pending concerns in the context of the clarity, length and complexity of several ASB standards. With the objective of addressing the aforesaid, SSAE 18 has integrated SSAE 16 with several prior SSAEs (specifically, SSAE 10 to 15 and 17) that were not related to SSAE 16. Another objective being met with SSAE 18, is the reduction of instances of duplication within similar standards that cover examinations, reviews and agreed upon procedure engagements. For several years, the terms SOC 1 and SSAE 16 (previously considered to be the standard SAS 70) have, inextricably and essentially, been used interchangeably. May 1, 2017 places a stamp of termination of this association.

To appreciate the impact of this development, it is pertinent to highlight that while SSAE 16 was specific to service organization controls ('SOC') 1 reports, which dealt with the controls at a service organization that impact financial reporting of the customers of the service organization; SSAE 18 refers to many different types of attestation reports (and not just SOC 1 reports).

As a consequence of various reports that are currently prepared under SSAE 18, the actual reference to these reports is now with reference to SOC 1, SOC 2, SOC 3 etc (while SSAE 18 is one standard that is used to produce them).

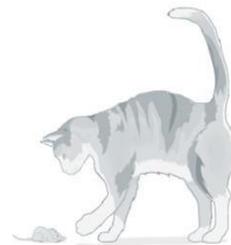
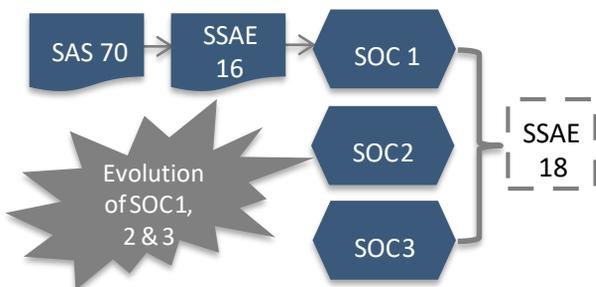
By way of a refresher

A SOC 1 report is a report on the controls at a service organization that are relevant to the internal control over financial reporting at their user entities.

SOC 1 partakes the nature of a Type I or a Type II report and is restricted to controls relevant to an audit of a user entity's financial statements.

In contrast, SOC 2 and SOC 3 reports address controls relevant to operations and compliance and as such focus on a business's non-financial reporting controls insofar as they relate to security, availability, processing integrity, confidentiality and privacy of a system.

The attestation for a SOC 2 report is undertaken in accordance with AT 101 to address one or more of the trust services principles ('TSP') contained therein. The focus of this report remains on testing and reporting on the design



SSAE 18 | Preparing for the change

(Type I) and operating (Type II) effectiveness of a service organization's controls (similar to a SOC 1 report).

While a SOC 3 report is also based upon TSPs and is performed under AT 101, the main point of distinction between a SOC 2 and SOC 3 report is that a SOC 3 report is permitted to be freely distributed (*general use*) and only description of the system, in the manner that SOC 2 report does, reports on if the entity has achieved the trust services criteria or not.

It follows that a SOC 3 report does not require a description of tests and results or opinion on **Main changes as a consequence of SSAE 18** The SSAE 18 attestation standards establish requirements and provide guidance for application by auditors while they perform and report on the examination, review and conduct of agreed-upon procedures engagements, which include SOC attestations. SSAE 18 has introduced an additional set of requirements to further enhance the SSAE 16 standard by (a) requiring the inclusion of a section for the complementary sub-service organization controls (similar to what is currently required for SOC 2 report); and (b) the performance of a detailed risk assessment based on the control objectives defined in the report.

The management of service organizations need to provide the service auditor with a written assertion, for them to undertake either a Type I or Type II engagement, with the focus of the service auditor being the attestation to form an opinion on the following:

- The fairness of the presentation of the description of the service organization's system;
- The suitability of the design of the controls to achieve the related control objectives stated in the description; and
- The operating effectiveness of those controls to achieve the related control objectives stated in the description (Type II only).

The other main change relates to monitoring the controls at sub-service organizations. It is no longer considered sufficient for service organizations to vet their subservice organizations during the initial buying process and not to assess them again.

What should a service organization do differently SSAE 18 requires the service organization to implement controls to monitor the effectiveness of relevant controls at the subservice organization. In this context, service organizations should assess their monitoring controls for subservice organizations and ensure they cover all subservice organizations, including those presented under the inclusive method.

Service organizations should review management's description and ensure that all controls that are necessary to achieve the control objectives are included. They should also review management's description and find and remove any non-key controls that are not necessary to achieve the control objectives.

What should the service organization auditor do differently?

SSAE 18 requires the service auditor to report on the controls the service organization has implemented to monitor the relevant controls at the subservice organization. Aspects related to service organizations' monitoring should continue to be included in management's description of controls and not listed as a control tested by the service auditor within the control matrices (*in a separate section of the report*). The attestation procedures should include an assessment of the process adopted by the service organization to regularly review its controls, adequately address its risks and make adjustments as needed.

Benefits of SSAE 18 reporting

- Allows the service organization to meet contractual obligations, while providing its customers with an independent third-party verification on the state of its internal controls governing the integrity, reliability, effectiveness and security of the services provided to user organizations; &
- The SSAE 18 attestation report can be used by user organization's financial statement auditors as a substitute for those parties performing their own first-hand audit procedures.

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