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Outsourcing

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Outsourcing Use of Service Organization

Specifically addressed under Canadian Auditing Standards 402

...It's an auditing standard. How does this affect the Company?

Don't get caught with no support for the transactions.

Outsourcing Use of Service Organization

- Outsourced services are relevant to the audit of a Company when those services are part of the user entity's information system.
- Although most controls at the service organization are likely to relate to financial reporting, there may be other controls that may also be relevant to the audit, such as controls over the safeguarding of assets.

Outsourcing Use of Service Organization

Examples of service organization services that are relevant to the audit include:

- Maintenance of the accounting records.
- Management of assets.
- Initiating, recording or processing transactions as agent of the user entity.

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Does not apply to:

- Services provided by financial institutions that are limited to processing transactions that are specifically authorized by the entity, such as the processing of checking account transactions by a bank or the processing of securities transactions by a broker.

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Does not apply to:

- The audit of transactions arising from proprietary financial interests in other entities, such as partnerships, corporations and joint ventures, when proprietary interests are accounted for and reported to interest holders

Outsourcing Use of Service Organization

SOC 1 reports:

- typically more likely to be relevant, as they address internal controls over financial reporting.

SOC 2 report:

- on security, availability, processing integrity, confidentiality or privacy controls may also provide information relevant to you as the user auditor, depending on its scope.

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There are two types of reports available for SOC 1 and SOC 2 engagements:

- A type 1 report provides evidence of whether controls have been designed and implemented at a point in time
- A type 2 report (which more commonly fits the needs of the user auditor) provides evidence of whether controls have been operating effectively throughout the period covered by the report

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CAS 402 takeaways

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