

**REPORTS ON THE INTERNAL CONTROL PROCEDURES  
OF SERVICE ORGANISATIONS**

This Audit Guidance Statement was approved by the Council of the Institute of Singapore Chartered Accountants (formerly known as Institute of Certified Public Accountants of Singapore) in May 2006.

This Statement is effective for reporting accountants' reports on internal control procedures of service organisations issued on or after 1 January 2007. Earlier application of this Statement is encouraged.

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# AUDIT GUIDANCE STATEMENT

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## AGS 8

### REPORTS ON THE INTERNAL CONTROL PROCEDURES OF SERVICE ORGANISATIONS

#### INTRODUCTION

1. The purpose of this Statement is to provide guidance to reporting accountants engaged to report on internal control procedures relating to specific areas or functions performed by service organisations.
2. There are a number of different types of service entities, ranging from those that perform a specific task under the direction of the user entity, to those that replace entire business units or functions of an entity. Certain customers of service organisations may be expected to report to their shareholders, as well as regulators and other stakeholders, that they have reviewed relevant internal control systems in their organisations. Where control of certain functions have been outsourced to a service organisation, those responsible will be concerned to ensure that the control procedures at the service organisation complement those operated by their organisation and that there is adequate internal control. The changes in regulatory regime which now imposes greater fiduciary duties on senior management and directors or authorised officers or authorised officers of companies to ensure that proper internal controls are established and operate effectively may also result in requests for assurance over certain areas and functions.
3. The use of a service organisation to outsource activities does not change the legal and governance responsibilities of the governing body and/or management of a user entity, including, for example, the responsibility to safeguard assets, maintain proper accounting records and prepare a financial report. The governing body and/or management of a user entity are responsible for ensuring that the contractual terms applicable to activities conducted by service organisations are appropriate.
4. As a result customers and their auditors are seeking additional comfort relating to controls operated by service organisations. Auditors, as part of their work may find it relevant and useful to obtain evidence of the operation of specific internal controls by the service organisation. The quality of the evidence is enhanced by the presence of a report by reporting accountants.
5. It is for the directors or authorised officers of the service organisation to decide whether to prepare a report on their internal controls and whether to have their report reviewed by reporting accountants. It is not the intention of this guidance to compel directors or authorised officers to report on internal controls in the manner described herewith. However, if they decide to provide a report other than in accordance with this guidance, they should not make any reference to this document in their report.

#### ELEMENTS OF THE REPORTING PACKAGE

6. The reporting package should comprise:
  - a report by the directors or authorised officers of the service organisation concerning the internal controls of the service organisation;
  - a report by the reporting accountants explaining the scope of work carried out and giving their opinion on the control procedures established by the directors or authorised officers; and

- an accompanying controls report setting out the control objectives and related control procedures established by the directors or authorised officers in relation to the area or function under review, as well as the tests carried out by the reporting accountants on those control procedures.

### Report by the directors or authorised officers

7. The directors or authorised officers of the service organisation are responsible for the design, implementation and maintenance of control procedures to ensure that the outsourced functions they provide as a service organisation are properly carried out. The directors or authorised officers are also responsible for the definition of adequate levels of protection in terms of control objectives and for ensuring that these objectives are achieved by the control procedures in place.
8. The report prepared by the directors or authorised officers of the service organisation should describe the control objectives and the related control procedures applicable to the area or function under review. The report prepared by the directors or authorised officers of the service organisation, should set out:
  - a statement of responsibility;
  - a general description of the service organisation's activities and its dependence (if any) on fellow group members;
  - the service organisation's control objectives in relation to each area or function under review and the specific procedures designed to control activities, in accordance with the control objectives;
  - details of any significant changes to the objectives and procedures during the period;
  - details of any exception to the above objectives and procedures during the period; and
  - an assertion by the directors or authorised officers that they have reviewed the control objectives and the control procedures in operation.
9. An illustrative extract of a possible directors' or authorised officers' report is set out at Appendix 2.
10. It would be helpful if material changes in the service organisation's control procedures that may have taken place in the period since any previous report on this type of internal controls are included in the directors' or authorised officers' report.

### Reports by the reporting accountants

11. The type of engagement to be performed and the related report to be prepared should be established by the service organisation and agreed with the reporting accountant. This section provides guidance on the three types of reports that may be issued:
  - (a) Type I  
A reporting accountant's report on a service organisation's description of the control procedures on whether such control procedures are fairly described, and the specific control procedures tested operated as described as at a specific date, or during a specified period.
  - (b) Type II(A)  
A reporting accountant's report on a service organisation's description of the control procedures on whether such control procedures are fairly described, were suitably designed to achieve the control objectives, and had been in operation as of a specific date.

*Note: Under this report, no assessment of the adequacy or completeness of the control objectives in relation to the risks they were designed to address is performed, nor is*

any assessment carried out on whether the control procedures achieve the stated control objectives.

(c) Type II(B)

A reporting accountant's report on a service organisation's description of the control procedures on whether such control procedures are fairly described, were suitably designed to achieve specified control objectives, had been placed in operation as of a specific date, and on whether the controls that were tested were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the related control objectives were achieved during the period specified.

12. The report by the reporting accountants should be addressed to the directors or authorised officers of the service organisation and will contain the following:

- a statement that the report is intended for the use of the directors or authorised officers. It may be helpful to acknowledge that they may wish to make it available to third parties. In those circumstances it will generally be appropriate to make reference to the engagement letter which, *inter alia*, limits the liability of the reporting accountant;
- a statement as to the scope of the report and the reporting accountants' responsibilities;
- if not included in the directors' or authorised officers' report, a statement that it is the responsibility of the directors or authorised officers to design, implement and maintain the control procedures of the service organisation;
- a statement that transactions in relation to any particular customer may not have been tested and that the reporting accountant has performed no procedures to evaluate the effectiveness of controls at individual customers;
- a statement that the testing carried out related to the control procedures of the service organisation and that their relevance to any customer of the service organisation is dependent on their interaction with the control procedures in place at the customer;
- a statement that all control systems have inherent limitations and accordingly errors and irregularities may occur and not be detected. Also they cannot guarantee protection against fraudulent collusion especially on the part of those holding positions of authority or trust;
- a statement (if relevant) that the report refers to procedures in place during a historical period and that there is a risk that changes may alter the validity of any conclusions; and
- additional statements and an opinion specific to each type of report will take one of the following forms:

(a) Type I report

- a statement that the reporting accountant has performed tests on specified control procedures to determine whether they have operated as described. The scope of the auditors' work will not include those control procedures identified in the directors' or authorised officers' report which are not capable of objective testing. Specific mention should be made of the fact that the reporting accountants have not performed an assessment of the adequacy or completeness of the control objectives identified by the directors or authorised officers nor whether the control procedures are able to achieve the control objectives which were set;
- an indication that the purpose of the reporting accountant's engagement was to obtain reasonable assurance about whether (1) the report on control procedures prepared by the service organisation's directors or authorised officers describes fairly, in all material respects, the aspects of the service organisation's control procedures in relation to each area or function under review, and (2) such controls had been placed in operation as of a specific date or for a specified period of time; and

- an opinion on whether the control procedures as set out describes fairly, in all material respects, the relevant aspects of the service organisation's controls that had been placed in operation as of a specific date or for a specified period of time, and an opinion in relation to the specific control procedures tested.

(b) Type II(A) report

- an indication that the purpose of the reporting accountant's engagement was to obtain reasonable assurance about whether (1) the report on control procedures prepared by the service organisation's directors or authorised officers describes fairly, in all material respects, the aspects of the service organisation's control procedures in relation to each area or function under review, (2) the controls were suitably designed to achieve specified control objectives, and (3) such controls had been placed in operation as of a specific date;
- a disclaimer of opinion on the operating effectiveness of the control procedures; and
- an opinion on whether the report on control procedures describes fairly, in all material respects, the relevant aspects of the service organisation's control procedures that had been placed in operation as of a specific date and whether, in the reporting accountant's opinion, the controls were suitably designed to provide reasonable assurance that the specified control objectives would be achieved if those controls were complied with satisfactorily.

(c) Type II(B) report

- an indication that the purpose of the reporting accountant's engagement was to obtain reasonable assurance about whether (1) the report on control procedures prepared by the service organisation's directors or authorised officers describes fairly, in all material respects, the aspects of the service organisation's control procedures in relation to each area or function under review, (2) the controls were suitably designed to achieve specified control objectives, and (3) such controls had been placed in operation as of a specific date;
- a statement of the period covered by the reporting accountant's report on the operating effectiveness of the specific control procedures tested;
- an opinion on whether the description presents fairly, in all material respects, the relevant aspects of the service organisation's control procedures that had been placed in operation as of a specific date and whether, in the reporting accountant's opinion, the control procedures were suitably designed to provide reasonable assurance that the specified control objectives would be achieved if those controls were complied with satisfactorily;
- an opinion on whether the control procedures that were tested were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the related control objectives were achieved during the period specified; and
- when all of the control objectives listed in the description of control procedures placed in operation are not covered by tests of operating effectiveness, a statement that the reporting accountant does not express an opinion on control objectives not listed in the description of tests performed at the service organisation.

13. If the reporting accountant believes that the description is inaccurate or insufficiently complete for user auditors, the reporting accountant's report should so state and should contain sufficient detail to provide user auditors with an appropriate understanding.
14. The reporting accountant should consider conditions that come to his or her attention that, in the reporting accountant's judgment, represent significant deficiencies in the design or operation of the service organisation's control procedures that preclude the reporting

accountant from obtaining reasonable assurance that specified control objectives would be achieved. The reporting accountant should also consider whether any other information, irrespective of specified control objectives, has come to his or her attention that causes him or her to conclude (a) that design deficiencies exist that could adversely affect the ability to initiate, record, process, or report financial data to user organisations without error, and (b) that user organisations would not generally be expected to have controls in place to mitigate such design deficiencies.

15. Illustrative extract of possible Type I, Type II(A) and Type II(B) reports are set out in Appendix 2.

### **Report of control objectives, procedures and tests summary**

16. Accompanying the directors' or authorised officers' report and the reporting accountants' report will be the controls report, which should set out:
- the control objectives over each area or function under review;
  - the control procedures established by the directors or authorised officers of the service organisation which are intended to achieve the control objectives set; and
  - a description of tests carried out by the reporting accountants on specific service organisation control procedures as appropriate to the type of report issued.
17. An illustrative extract of a controls report is set out in Appendix 4.

### **ENGAGEMENT LETTERS**

18. It is important that there should be a clear understanding and agreement between the service organisation and the reporting accountant relating to the scope and purpose of the engagement. The terms of the reporting accountant's engagement should be described in writing and should include:
- the directors' or authorised officers' and reporting accountants' respective responsibilities for the different elements of the report;
  - the scope of the work that will be performed by the reporting accountant;
  - the agreed use of the report and the extent to which, and the context in which, the report may be made available by the directors or authorised officers to third parties;
  - a reference to the likely need for management representations;
  - an explanation of the inherent limitations of the work; and
  - limitations to the liability of the reporting accountant.
19. In particular, reporting accountants should exclude liability in respect of any loss or damage caused by, or arising from fraudulent acts, misrepresentation or wilful default on the part of the company, its directors or authorised officers, employees or agents. The reporting accountant would also exclude liability to third parties or regulators. They would normally obtain a limitation in aggregate of their liability.
20. An illustrative extract of a possible engagement letter is set out in Appendix 1.

### **THE REPORTING ACCOUNTANTS' REVIEW**

21. Where reports are referred to as being prepared in accordance with the framework for reporting set out in this Statement, the reporting accountants should plan and perform their work so as to provide a reasonable basis for their opinion. It is not feasible, nor desirable, that reporting accountants examine every transaction, record or control procedure. It is envisaged, however, that it will normally be necessary for the reporting accountants to carry out procedures, the scope and frequency of which they would probably be different as to what would be necessary as part of their statutory or regulatory audit. Professional judgement will

be needed to determine the required nature, timing and extent of the tests to be carried out and the reliance, if applicable, on the service organisation's internal audit department.

22. The reporting accountants' work should be planned so as to have a reasonable expectation of detecting significant exceptions in respect of the control procedures described by the directors or authorised officers and tested in accordance with the terms of the engagement. The work cannot, however, be expected to detect problems which may be considered significant from the point of view of a user of the report and the scope of the work may mean that all controls relevant to that user may not have been tested.
23. The reporting accountants should consider whether the directors' or authorised officers' description of the control procedures in place is consistent with the reporting accountants' own understanding of those control procedures.
24. Evidence regarding whether the control procedures have operated may be obtained using any relevant reporting accountants' experience of the service organisation and through:
  - enquiry of the appropriate management and staff personnel;
  - observation of the activities and operations;
  - review of any internal audit or compliance testing results; and
  - inspection of other relevant documents and records.
25. The level of work required should also be commensurate with the type of opinion being issued since each report type entails a different level of assurance provided by the reporting accountants. Where a Type II(A) or Type II(B) report is issued, the reporting accountants should have regard to the following additional guidance:
  - (a) *Evaluating Design and Existence*
    - The reporting accountant should evaluate the design effectiveness of the internal controls relating to each area or function under review based on the identified control objectives and procedures. This evaluation is based on whether internal controls at the service organisation have been suitably designed to reduce risk of the specified objectives not being achieved to a low level. Where the reporting accountant is unable to identify internal controls that are designed to provide reasonable assurance about the achievement of the stated objectives, this constitutes a weakness in relation to design.
    - Where the "design and existence" of control procedures are to be reported on, audit procedures generally consist of enquiry, observation, review of documentation and tracing of transactions through the information system. Enquiry alone does not normally provide sufficient audit evidence to express an opinion on the existence of control procedures unless corroborated from more than one source. Usually a walkthrough of the flow of transactions through the information system is required as a minimum.
  - (b) *Testing Operating Effectiveness and Continuity*
    - Tests of operating effectiveness are concerned with how the controls were applied, the consistency with which they were applied, and who applied them. The reporting accountant considers the period of time over which the controls were applied. These tests ordinarily include procedures such as inquiry of appropriate personnel, inspection of relevant documentation, observation of the service organisation's operations, and detailed procedures to substantiate the effective operation of controls. Detailed procedures include re-performance or examination and follow-up of the application of significant control procedures.

## WRITTEN REPRESENTATIONS

26. The reporting accountants will normally obtain written representations from the service organisation's directors or authorised officers in relation to the report. Matters on which representations may be sought include (where applicable) statements that:
- the directors or authorised officers acknowledge responsibility for establishing and maintaining appropriate control procedures relating to the area or function under review;
  - the specified control objectives are appropriate;
  - the control procedures as set out in the report by the directors or authorised officers describes fairly, in all material respects, the aspects of the service organisation's control procedures relating to the area or function under review;
  - the controls, as described, had been placed in operation as of a specific date;
  - the directors or authorised officers believe its controls were suitably designed to achieve the specified control objectives;
  - the directors or authorised officers have disclosed to the reporting accountant any significant changes in controls that have occurred since the service organisation's last examination;
  - the directors or authorised officers have disclosed to the reporting accountant all design deficiencies in controls of which it is aware, including those for which management believes the cost of corrective action may exceed the benefits;
  - the directors or authorised officers have disclosed to the reporting accountant any subsequent events that would have a significant effect on user organisations;
  - the directors or authorised officers have disclosed to the reporting accountants details of any fraud or illegal acts, irregularities or uncorrected errors attributable to the service organisation's directors or employees that may affect customers or the service organisation;
  - the directors or authorised officers have informed the reporting accountants of all instances, of which they were aware, when procedures had not operated as designed; and
  - For Type II(B) reports, the reporting accountant should also obtain a written representation from the service organisation's management stating that that the control procedures operated with sufficient effectiveness to ensure that the related control objectives were achieved during the period specified, and that management has disclosed to the reporting accountant all instances, of which it is aware, when controls have not operated with sufficient effectiveness to achieve the specified control objectives.
27. The reporting accountants should see the form and context in which their report will be issued to third parties, or referred to, before signing it.
28. The reporting accountants will not be responsible for carrying out a review of disclosed systems changes subsequent to the specified date or for the identification of changes not disclosed by management.
29. An illustrative extract of a possible written representation from management is set out in Appendix 5.

## MATERIAL WEAKNESSES

30. In order that the statement by directors or authorised officers is fairly described, the directors or authorised officers should include in their report a description of any material weaknesses identified which have, in their view, affected whether control procedures are in place, or reduced the effectiveness or have prevented the operation of control procedures, if those

weaknesses were not themselves identified and rectified within an appropriate time. It would also be helpful for the status of any corrective action taken by the directors or authorised officers in relation to any reported weakness to be included in their report.

31. Where the reporting accountants have become aware of material weaknesses which are inadequately described in the directors' or authorised officers' report, they should qualify their report and provide such a description in their report or a reference to such a description in the directors' or authorised officers' report. The reporting accountants should also refer to any inaccurate or inadequate description of the service organisation's control procedures in the directors' or authorised officers' report of which they have become aware.
32. On occasions directors or authorised officers may seek to alter control objectives in order to prevent a qualification in the report by the reporting accountants. Reporting accountants should assess carefully the appropriateness of any changes proposed to the directors' or authorised officers' report and the risks arising from this and consider their opinion in the light of that assessment.
33. The directors or authorised officers may express their intention to rectify a weakness at some future time. No opinion should be given by the reporting accountants in relation to such an expressed intention and the report by the reporting accountants should specifically state that fact. Reporting accountants may, at the request of the directors or authorised officers, test and report on any corrective action taken in respect of a weakness.

#### **EFFECTIVE DATE**

34. This Statement is effective for reporting accountant' reports on internal control procedures of service organisations issued on or after 1 January 2007. Earlier application of this Statement is encouraged.

**APPENDIX 1****ILLUSTRATIVE ENGAGEMENT LETTER**

The Directors/authorised officers  
XYZ Pte Ltd

Dear Sirs

Following our recent meeting when you invited us to report on your report on the \_\_\_ operations of XYZ Pte Ltd carried out by business units of the company located at \_\_\_ as at \_\_\_ / throughout the period from \_\_\_ to \_\_\_, we are writing to set out our proposed responsibilities, our understanding of the work to be performed and the terms and conditions upon which we offer to perform such work.

**Respective responsibilities of directors or authorised officers and reporting accountants**

As the directors or authorised officers of XYZ Pte Ltd you are responsible for the design, implementation and maintenance of control procedures that provide adequate levels of protection of customers' assets and records to ensure that all transactions are properly recorded. You are also responsible for the definition of adequate levels of protection in terms of control objectives and for ensuring that these objectives are achieved by the control procedures in place. You will describe the control objectives and the related control procedures in a report. It is our responsibility to form an independent opinion on whether you have fairly described the control procedures and:

- *[If issuing a Type I report]*  
On whether the specific control procedures which we tested operated as described and to report to you. We shall not report on any opinions or assertion by you on the effectiveness of objectives, policies and procedures.

OR

- *[If issuing a Type II(A) report]*  
On whether the specific control procedures were suitably designed to achieve the control objectives, and had been in operation as of a specific date.

OR

- *[If issuing a Type II(B) report]*  
On whether the specific control procedures were suitably designed to achieve specified control objectives, on whether they had been placed in operation as of a specific date, and on whether the controls that were tested were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the related control objectives were achieved during the period specified.

**Scope of work**

The work we shall perform will be conducted in accordance with the framework set out in Audit Guidance Statement 8 "*Reports on the Internal Control Procedures of Service Organisations*", issued by the Institute of Singapore Chartered Accountants. Our work will [if applicable] include enquiries of management together with tests of certain specific control procedures which will be set out in the attachment to our report. Our work will be planned in advance. [In developing our plan we shall liaise with your Internal Audit Department to ensure that our work is properly coordinated with theirs.]

We shall not be responsible for a review of changes to control procedures beyond the period reported upon or for the identification of changes not disclosed by management.

**Use of report**

Our report will be addressed to you as directors or authorised officers of the company, although we understand that you may wish to make the report available to customers using the company's services, and we consent to the report being provided to them on request for their information but without liability to them on our part. You agree not to use our report, or make references to it, in material disseminated to the general public without our express written permission. In any case where

marketing literature is prepared which will refer either to us or our report, you will seek our consent to those references in advance and we reserve the right to refuse.

### **Management representations**

We may seek written representations from management in relation to matters for which independent corroboration is not available. We will also seek confirmation from you that any significant matters of which we should be aware have been brought to our attention.

### **Limitations of work**

Control procedures designed to address specified control objectives are subject to inherent limitations and, accordingly, errors or irregularities may occur and not be detected. Such procedures cannot guarantee protection against fraudulent collusion especially on the part of those holding positions of authority or trust. Furthermore our opinion will be based on historical information and the projection of any information or conclusions, contained in our opinion or the attached report, to any future periods is subject to the risk that changes in procedures or circumstances may alter their validity. We shall not assess whether the control procedures achieve the control objectives which were set.

### **Fees**

Our fees will be based on the degree of skill involved, the experience of staff engaged and the time necessarily occupied on the work.

### **Exclusion and Limitation of Liability**

We shall use reasonable skill and care in the provision of the services set out in this letter.

We shall not under any circumstances be liable for damages or for losses that are not a direct result of breach of contract or negligence on our part in respect of services provided in connection with or arising out of the engagement set out in this letter (or any variation or addition thereto) or for any consequential losses or loss of profits of whatsoever nature, and in any event, the liability of [Firm ABC Partners], its partners and staff (whether in contract, negligence or otherwise) shall in no circumstances exceed the fees paid specifically for the work in question which allegedly entailed a breach of contract or negligence on our part.

In no event shall [Firm ABC Partners], its partners, or employees be liable for any loss, damage, cost or expense arising in any way from or in connection with the fraudulent acts or omissions, or any misrepresentation or any other default on the part of the directors or authorised officers, employees or agents of the XYZ Pte Ltd.

Without derogating from the aforesaid provisions:

- (a) We shall not under any circumstances whatsoever be liable to any third party whether or not they are shown a copy of any work that we do pursuant to the terms of our engagement and whether or not we have consented to such work being shown to them, save and except where we have specifically agreed in writing to accept such liability; and
- (b) Any legal proceedings against [Firm ABC Partners], its partners or employees arising from or in connection with the engagement set out in this letter (or any variation or addition thereto) must be formally commenced within one year from the date when the party bringing the proceedings becomes aware, or ought reasonably to have become aware of the facts which give rise to the liability alleged and in any event, not later than 3 years after any alleged breach of contract, negligence or other act or omission.

### **Third party rights**

The Contracts (Rights of Third Parties) Act, Chapter 53B of Singapore (the "Act"), shall not under any circumstances apply to the contract formed by this engagement letter and any person who is not a party to this contract (whether or not such person shall be named, referred to, or otherwise identified in, or form part of a class of persons so named, referred to or identified in, this engagement letter) shall have no right whatsoever under the Act to enforce the contract formed by this engagement letter

or any of its terms and the parties to this letter do not intend for any term of the contract formed by this engagement letter to be enforceable by any third party.

**Acknowledgement and Acceptance**

We shall be obliged if you will acknowledge receipt and your acceptance of this letter by \_\_\_\_.

Yours faithfully

**APPENDIX 2**

**ILLUSTRATIVE REPORT BY THE DIRECTORS/AUTHORISED OFFICERS OF XYZ PTE LTD**

As the directors or authorised officers of XYZ Pte Ltd we are responsible for:

- (a) the identification of control objectives relating to [the area or function under review].
- (b) the design, implementation and maintenance of control procedures to ensure with reasonable assurance on an ongoing basis that the control objectives are achieved.

In carrying out these responsibilities we have regard not only to the interest of customers but also to those of the owners of the business and the general effectiveness and efficiency of the relevant operations.

We have reviewed the control objectives and procedures in operation.

We set out in the attached controls report the relevant control objectives together with the specific control procedures which were operating as described to meet each of these objectives during the period \_\_\_ to \_\_\_.

*[Where applicable] Since the end of the last reporting period, there were significant changes made to the control procedures pertaining to [the area or function under review]. These changes are set out in the attached controls report/as follows:*

- xxxx
- xxxx

Signed on behalf of [the service organisation]

\_\_\_\_\_  
**Name**  
**Position**  
**Date**

**APPENDIX 3(a)****ILLUSTRATIVE TYPE I REPORT BY THE REPORTING ACCOUNTANT TO THE DIRECTORS/AUTHORISED OFFICERS OF XYZ PTE LTD****Use of this report**

This report is intended solely for use of the directors or authorised officers of XYZ Pte Ltd and, without giving rise to any liability or duty to them on our part for the information of third parties to whom the directors or authorised officers may provide this report. The attention of such persons are drawn to the engagement letter dated \_\_\_\_ which includes the limitation of liability of the reporting accountants.

**Respective responsibilities of directors or authorised officers and reporting accountants**

Your responsibilities as directors or authorised officers are set out in the accompanying report by directors or authorised officers. It is our responsibility to form an independent opinion, based on the work that we carried out, and to report our opinion to you as directors or authorised officers of XYZ Pte Ltd.

**Basis of opinion**

We have reviewed the accompanying report describing the control procedures relating to the [area or function under review] of XYZ Pte Ltd.

Our review included procedures to obtain reasonable assurance about whether the accompanying report on control procedures as prepared by the directors or authorised officers describes fairly, in all material respects, the aspects of XYZ Pte Ltd's control procedures in relation to the [area or function under review], and that such control procedures were in operation as at \_\_\_\_\_. Our review was performed in accordance with the Audit Guidance Statement 8 "*Reports on the Internal Control Procedures of Service Organisations*" issued by the Institute of Singapore Chartered Accountants and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

We have not performed an assessment of the adequacy or completeness of the control objectives in relation to the risks they are designed to address nor have we assessed whether the control procedures achieve the control objectives which were set. Our opinion relates solely to the control procedures which we tested and not to any other.

We did not perform procedures to determine the operating effectiveness of controls for any period. Accordingly, we do not express any opinion on the operating effectiveness of any aspects of XYZ Pte Ltd's controls, individually or otherwise.

Our tests did not include tests of transactions in respect of any particular customer. They were restricted to the procedures of XYZ Pte Ltd's activities carried out and their relevance to any individual customer is dependent on their interaction with the particular procedures and other circumstances of that customer.

Control procedures designed to address specified control objectives are subject to inherent limitations and, accordingly, errors or irregularities may occur and not be detected. Such procedures cannot guarantee protection against fraudulent collusion especially on the part of those holding positions of authority or trust. Furthermore, this opinion is based on historical information and the projection of any information or conclusions in the attached report to any future periods would be inappropriate.

**Opinion**

Based on the above, in our opinion:

- (a) the accompanying controls report describes fairly, in all material respects, the control procedures in place as of \_\_\_\_; and
- (b) the specific control procedures that we tested as set out in the accompanying controls report operated as described as at \_\_\_\_.

Signature

Chartered Accountants  
Singapore

Date

**APPENDIX 3(b)****ILLUSTRATIVE TYPE II(A) REPORT BY THE REPORTING ACCOUNTANT TO THE DIRECTORS/AUTHORISED OFFICERS OF XYZ PTE LTD****Use of this report**

This report is intended solely for use of the directors or authorised officers of XYZ Pte Ltd and, without giving rise to any liability or duty to them on our part for the information of third parties to whom the directors or authorised officers may provide this report. The attention of such persons are drawn to the engagement letter dated \_\_\_ which includes the limitation of liability of the reporting accountants.

**Respective responsibilities of directors or authorised officers and reporting accountants**

Your responsibilities as directors or authorised officers are set out in the accompanying report by directors or authorised officers. It is our responsibility to form an independent opinion, based on the work that we carried out, and to report our opinion to you as directors or authorised officers of XYZ Pte Ltd.

**Basis of opinion**

We have reviewed the accompanying report describing the control procedures relating to the [area or function under review] of XYZ Pte Ltd.

Our review included procedures to obtain reasonable assurance about whether the accompanying report on control procedures as prepared by the directors or authorised officers describes fairly, in all material respects, the aspects of XYZ Pte Ltd's control procedures in relation to the [area or function under review], the controls as described were suitably designed to achieve the control objectives specified, if those controls were complied with satisfactorily, and such controls had been placed in operation as of \_\_\_\_. Our review was performed in accordance with the Audit Guidance Statement 8 "*Reports on the Internal Control Procedures of Service Organisations*" issued by the Institute of Singapore Chartered Accountants and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

We did not perform procedures to determine the operating effectiveness of controls for any period. Accordingly, we do not express any opinion on the operating effectiveness of any aspects of XYZ Pte Ltd's controls, individually or otherwise.

Our tests did not include tests of transactions in respect of any particular customer. They were restricted to the line procedures of XYZ Pte Ltd's activities carried out at the specified business units and their relevance to any individual customer is dependent on their interaction with the particular procedures and other circumstances of that customer.

Control procedures designed to address specified control objectives are subject to inherent limitations and, accordingly, errors or irregularities may occur and not be detected. Such procedures cannot guarantee protection against fraudulent collusion especially on the part of those holding positions of authority or trust. Furthermore, this opinion is based on historical information and the projection of any information or conclusions in the attached report to any future periods would be inappropriate.

**Opinion**

Based on the above, in our opinion:

- (a) the accompanying controls report describes fairly, in all material respects, the control procedures that had been placed in operation as of \_\_\_\_; and
- (b) the controls, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily.

Signature

Chartered Accountants  
Singapore

Date

**APPENDIX 3(c)****ILLUSTRATIVE TYPE II(B) REPORT BY THE REPORTING ACCOUNTANT TO THE DIRECTORS/AUTHORISED OFFICERS OF XYZ PTE LTD****Use of this report**

This report is intended solely for use of the directors or authorised officers of XYZ Pte Ltd and, without giving rise to any liability or duty to them on our part for the information of third parties to whom the directors or authorised officers may provide this report. The attention of such persons are drawn to the engagement letter dated \_\_\_\_ which includes the limitation of liability of the reporting accountants.

**Respective responsibilities of directors or authorised officers and reporting accountants**

Your responsibilities as directors or authorised officers are set out in the accompanying report by directors or authorised officers. It is our responsibility to form an independent opinion, based on the work that we carried out, and to report our opinion to you as directors or authorised officers of XYZ Pte Ltd.

**Basis of opinion**

We have reviewed the accompanying report describing the control procedures relating to the [area or function under review] of XYZ Pte Ltd.

Our review included procedures to obtain reasonable assurance about whether the accompanying report on control procedures as prepared by the directors or authorised officers describes fairly, in all material respects, the aspects of XYZ Pte Ltd's control procedures in relation to the [area or function under review], the controls as described were suitably designed to achieve the control objectives specified, if those controls were complied with satisfactorily, and such controls had been placed in operation as of \_\_\_\_\_. Our review was performed in accordance with the Audit Guidance Statement 8 "*Reports on the Internal Control Procedures of Service Organisations*" issued by the Institute of Singapore Chartered Accountants and included those procedures we considered necessary in the circumstances to obtain a reasonable basis for rendering our opinion.

In addition to the procedures we considered necessary to render our opinion as expressed in the previous paragraph, we applied tests to specific controls, listed in the accompanying report on control objectives, procedures and tests summary, to obtain evidence about their effectiveness in meeting the stated control objectives.

The relative effectiveness and significance of specific controls at XYZ Pte Ltd and their effect on assessments of control risk at user organisations are dependent on their interaction with the controls and other factors present at individual user organisations. We have performed no procedures to evaluate the effectiveness of controls at individual user organisations.

Our tests did not include tests of transactions in respect of any particular customer. They were restricted to the line procedures of XYZ Pte Ltd's activities carried out at the specified business units and their relevance to any individual customer is dependent on their interaction with the particular procedures and other circumstances of that customer.

The description of controls at XYZ Pte Ltd is as of\_\_\_\_\_, and information about the tests of the operating effectiveness of specific controls covers the period from \_\_\_\_\_ to\_\_\_\_\_. The potential effectiveness of specific controls at the XYZ Pte Ltd is subject to inherent limitations and, accordingly, errors or irregularities may occur and not be detected. Such procedures cannot guarantee protection against fraudulent collusion especially on the part of those holding positions of authority or trust. Furthermore, this opinion is based on historical information and the projection of any information or conclusions in the attached report to any future periods would be inappropriate.

**Opinion**

Based on the above, in our opinion:

- (a) the accompanying controls report describes fairly, in all material respects, the control procedures that had been placed in operation as of \_\_\_\_;
- (b) the controls, as described, are suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls were complied with satisfactorily; and
- (c) the control procedures that were tested as set out in the accompanying controls report were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives as specified were achieved during the period from \_\_\_\_\_ to \_\_\_\_\_.

Signature

Chartered Accountants  
Singapore

Date

**APPENDIX 4**

**ILLUSTRATIVE CONTROLS OBJECTIVES, PROCEDURES AND TESTS SUMMARY**

*Example description of the subject matter and internal control objectives and procedures (detail level) and a report by the management of the service organisation on its internal controls:*

**XYZ PTE LTD**

**Introduction**

XYZ Pte Ltd ('XYZ') operates a data centre that provides its customers on-line computer based systems. Batch generation of reports extracted from on-line data is also available upon request.

The data centre houses computer hardware and system software and accommodates operators responsible for day-to-day operations of the network, computer systems and production scheduling, the hardware support function responsible for installation and maintenance of hardware, and an operations support function responsible for disk and tape support, maintenance and back-up of data and software.

The stated internal control objectives and control procedures included in this report apply to XYZ operations as they relate only to timesharing services. Specifically excluded from this report are controls within individual systems, controls executed at customer premises and other services provided by XYZ including data conversion services, custom application development and facilities management.

The effectiveness of control procedures performed by customers of XYZ should also be considered as part of the overall system of internal control relating to processing performed at the XYZ data centre.

Prepared by XYZ Pte Ltd	Performed by Reporting Accountants		
<p><b>Control Objective:</b></p> <p>Information <b>Technology</b> – Physical access to computer equipment and data centre is limited to only authorised personnel</p>	<p><b>Control Procedures</b></p> <ul style="list-style-type: none"> <li>• Access to and within the data centre is restricted by a cardkey security system that provides on-line monitoring of physical access and intrusion.</li> <li>• XYZ Physical Security Team monitors accesses and intrusions.</li> </ul>	<p><b>Tests Carried Out</b></p> <ul style="list-style-type: none"> <li>• Observed XYZ Pte Ltd personnel attempt to access unauthorised buildings.</li> <li>• Inspected access list for the data centers noting only appropriate staff had access rights.</li> </ul>	<p><b>Results</b></p> <ul style="list-style-type: none"> <li>• No exceptions noted.</li> <li>• No exceptions noted.</li> </ul>
<p><b>Control Objective:</b></p> <p>Physical control of customer securities and reconciliation procedures</p>	<p><b>Control Procedures</b></p> <ul style="list-style-type: none"> <li>• Physical securities are released only on receipt of a customer authorised instruction validated against a customer signatory list.</li> <li>• All customers are contacted annually to verify the accuracy of the authorised signatory list.</li> </ul>	<p><b>Tests Carried Out</b></p> <ul style="list-style-type: none"> <li>• Inspected a sample of authorised customer instructions and tested for evidence of validation against customer signatory list for sample of sales and withdrawals of securities extracted from the records.</li> <li>• Reviewed recent correspondence with a sample of customers, verifying that there is evidence of the check having been carried out by management</li> </ul>	<p><b>Results</b></p> <ul style="list-style-type: none"> <li>• No exceptions noted.</li> <li>• No exceptions noted.</li> </ul>

## APPENDIX 5

## ILLUSTRATIVE MANAGEMENT REPRESENTATION LETTER

ABC Partners  
Local Office Address

Dear Sir

We are writing at your request to confirm our understanding that your review was made for the purpose of expressing an opinion on the control procedures in relation to [the area or function under review] carried out under Audit Guidance Statement 8 "Reports on the Internal Control Procedures of Service Organisations" issued by the Institute of Singapore Chartered Accountants, as of \_\_\_\_\_ / for the period from \_\_\_\_ to \_\_\_\_.

In connection with your review, we confirm to the best of our knowledge and belief the following representations made to you during your review:

1. We are responsible for establishing, documenting and maintaining a system of internal controls that provides management with reasonable but not absolute assurance as to the control objectives for [the area or function under review].
2. The description of the [service organisation's] control procedures set forth in the report by the directors or authorised officers are fairly described and are suitably designed to achieve the specified control objectives.
3. We confirm that the control procedures described in the report had been placed in operation as of a specific date, and were followed by the [service organisation] during the period under review.
4. We are not aware of a weakening of any control procedures subsequent to \_\_\_\_\_.
5. We have not knowingly withheld from you any information that in our judgment would be relevant to the purposes of your review.
6. There have been no fraud or other irregularities involving any member of management or employees who have significant roles in the system of internal controls.
7. There have been no significant adjustments necessary to the records relating to \_\_\_\_\_ that have not been disclosed to you.
8. We have disclosed to you any significant changes in controls that have occurred since the service organisation's last examination.
9. We have disclosed to you all design deficiencies in controls of which we are aware, including those for which management believes the cost of corrective action may exceed the benefits.
10. We have disclosed to you all instances, of which we are aware, when procedures had not operated as designed.
11. [For Type II(B) reports] We confirm that the control procedures in relation to [the area or function under review] operated with sufficient effectiveness to ensure that the related control objectives were achieved during the period specified.
12. [For Type II(B) reports] We have disclosed to you all instances, of which we are aware, when controls have not operated with sufficient effectiveness to achieve the specified control objectives.

Signed on behalf of [the service organisation]

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**Name**  
**Position**  
**Date**