

Agenda Item 6-B

Alignment of ISA 315 (Redrafted) and ISA 330 (Redrafted) to Proposed ISA 402 (Revised and Redrafted)

ISA 315 (Redrafted) and ISA 330 (Redrafted)		Proposed ISA 402 (Revised and Redrafted)	
Para		Para	
			Obtaining an Understanding of the Services Provided by a Service Organization
ISA 315 18	<p>The auditor shall obtain an understanding of the information system, including the related business processes, relevant to financial reporting, including the following areas:</p> <ul style="list-style-type: none"> (a) The classes of transactions in the entity's operations that are significant to the financial statements; (b) The procedures, within both information technology (IT) and manual systems, by which those transactions are initiated, recorded, processed, corrected as necessary, transferred to the general ledger and reported in the financial statements; (c) The related accounting records, supporting information and specific accounts in the financial statements that are used to initiate, record, process and report transactions; this includes the correction of incorrect information and how information is transferred to the general ledger. The records may be in either manual or electronic form; (d) How the information system captures events and conditions, other than transactions, that are significant to the financial statements; (e) The financial reporting process used to prepare the 	9	<p>When obtaining an understanding of the entity in accordance with ISA 315 (Redrafted), the auditor shall obtain an understanding of how a user entity uses a service organization in its operations, including:</p> <ul style="list-style-type: none"> (a) The nature of the services provided by the service organization and the significance of those services to the user entity, including its internal control; and (b) The nature and materiality of the transactions processed or accounts affected by the service organization and the degree of interaction between the activities of the service organization and those of the user entity.

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	entity's financial statements, including significant accounting estimates and disclosures; and (f) Controls surrounding journal entries, including non-standard journal entries used to record non-recurring, unusual transactions or adjustments.		
ISA 315 12	The auditor shall obtain an understanding of internal control relevant to the audit. Although most controls relevant to the audit are likely to relate to financial reporting, not all controls that relate to financial reporting are relevant to the audit. It is a matter of the auditor's professional judgment whether a control, individually or in combination with others, is relevant to the audit.	10	When obtaining an understanding of internal control relevant to the audit in accordance with ISA 315 (Redrafted), the user auditor shall evaluate the user entity's design and implementation of relevant controls as they relate to the services performed by the service organization, including those that are applied to the transactions processed by the service organization, and relevant monitoring controls.
ISA 315 13	When obtaining an understanding of controls that are relevant to the audit, the auditor shall evaluate the design of those controls and determine whether they have been implemented, by performing procedures in addition to inquiry of the entity's personnel.	13	When the user auditor decides to use a Type A report as audit evidence about the design and implementation of the service organization's controls for certain assertions, the user auditor shall: (a) Evaluate the sufficiency and appropriateness of the evidence provided for the relevant assertions; and (b) Determine whether complementary user entity controls identified by the service organization are relevant to the user entity and if so, obtain an understanding of whether the user entity has designed and implemented such controls.
ISA	The auditor shall identify and assess the risks of material	11	In considering the various sources of information about a

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315 24	misstatement at: (a) The financial statement level; and (b) The assertion level for classes of transactions, account balances and disclosures.		service organization, the user auditor shall determine whether the user auditor's understanding of the services provided by the service organization is sufficient to perform risk assessment procedures as a basis for the identification and assessment of risks of material misstatement.
			Assessing the Risks of Material Misstatement
ISA 330 8	The auditor shall design and perform tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls when: (a) The auditor's assessment of risks of material misstatement at the assertion level includes an expectation that the controls are operating effectively (i.e., the auditor intends to rely on the operating effectiveness of controls in determining the nature, timing and extent of substantive procedures); or (b) Substantive procedures alone cannot provide sufficient appropriate audit evidence at the assertion level.	12	When the user auditor's risk assessment includes an expectation that the service organization's controls are operating effectively for certain assertions for which controls are applied only at the service organization, the user auditor shall obtain audit evidence about the operating effectiveness of those controls from one or more of the following procedures: (a) Obtaining a Type B report that describes both the relevant tests of controls and the results of the service auditor's tests of those controls; (b) Performing appropriate tests of controls at the service organization; or (c) Requesting the service auditor to perform tests of controls at the service organization on behalf of the user auditor.
			Using a Report on Controls at a Service Organization as Audit Evidence
ISA	In designing and performing tests of controls, the auditor	14	When the user auditor decides to use a Type B report as audit

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330	shall:		evidence about the design and implementation of the service organization's controls for certain assertions and that the service organization's controls are operating effectively, the user auditor shall:
10	<p>(a) Perform other audit procedures in combination with inquiry to obtain audit evidence about the operating effectiveness of the controls, including:</p> <p>(i) How the controls were applied at relevant times during the period under audit.</p> <p>(ii) The consistency with which they were applied.</p> <p>(iii) By whom or by what means they were applied.</p> <p>(b) Determine whether the controls to be tested depend upon other controls (indirect controls), and if so, whether it is necessary to obtain audit evidence supporting the effective operation of those indirect controls.</p>		<p>(a) Evaluate the sufficiency and appropriateness of the evidence provided about the effectiveness of controls for the relevant assertions;</p> <p>(b) Determine whether complementary user entity controls identified by the service organization are relevant to the user entity and if so, obtain an of whether the user entity has designed and implemented such controls and if so, test their operating effectiveness; and</p> <p>(c) Evaluate the specific tests of controls performed by the service auditor and the results thereof relevant to those assertions to determine if sufficient appropriate audit evidence has been obtained about the operating effectiveness of the controls to support the user auditor's risk assessments.</p>
		15	In determining whether the service auditor's assurance report provides sufficient appropriate audit evidence to support the user auditor's opinion, when the service auditor is not well known to the user auditor, the user auditor shall inquire about the service auditor's professional reputation, competence and independence.
		16	When the user auditor uses an assurance report from a service

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			auditor, the user auditor shall not refer to the service auditor in the user auditor's report containing an unmodified opinion unless required to do so by law or regulation. If the user auditor is required to do so, the user auditor's report shall clearly indicate that such reference does not alter the user auditor's opinion as stated in the report, or diminish the user auditor's sole responsibility for the report.
			Other Audit Evidence Considerations Regarding Service Organizations
ISA 330 27	The auditor shall conclude whether sufficient appropriate audit evidence has been obtained. In forming an opinion, the auditor shall consider all relevant audit evidence, regardless of whether it appears to corroborate or to contradict the assertions in the financial statements.	17	Based on the user auditor's understanding of the aspects of the user entity's information system relating to relevant services provided by the service organization and the user auditor's responses to assessed risks in accordance with ISA 330 (Redrafted), the user auditor shall: (a) Assess whether sufficient appropriate audit evidence concerning the relevant financial statement assertions is available from records held at the user entity; and if not. (b) Perform further audit procedures to obtain sufficient appropriate audit evidence or request the service auditor to perform those procedures on the user auditor's behalf.
ISA 330 28	If the auditor has not obtained sufficient appropriate audit evidence as to a material financial statement assertion, the auditor shall attempt to obtain further audit evidence. If the auditor is unable to obtain sufficient appropriate audit evidence, the auditor shall express a qualified opinion or a disclaimer of opinion.		
			Fraud, Illegal Acts and Uncorrected Misstatements in Relation to Activities at the Service Organization
		18	The user auditor shall inquire of management of the user entity whether the service organization has reported any

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			fraud, illegal acts or uncorrected misstatements that affect the user entity and if so, the user auditor shall evaluate how they affect the nature, timing and extent of the user auditor's further audit procedures.
			Communications with Management and Those Charged with Governance
ISA 315 32 ISA 330 19	The auditor shall communicate material weaknesses in internal control identified during the audit on a timely basis to management at an appropriate level of responsibility and, as required by ISA 260 (Revised), "Communication with Those Charged with Governance," ¹ with those charged with governance (unless all of those charged with governance are involved in managing the entity).	19	As required by ISA 315 (Redrafted) and ISA 330 (Redrafted), the user auditor shall communicate material weaknesses in internal control identified during the audit on a timely basis to management at an appropriate level of responsibility and, as required by [proposed] ISA 260 (Revised and Redrafted), "Communication with Those Charged with Governance," with those charged with governance (unless all of those charged with governance are involved in managing the entity).

¹ Close off document approved May 2006.