



**International Federation of Accountants**

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# Agenda Item 6

**Committee:** IAASB

**Meeting Location:** Sydney

**Meeting Date:** April 16-20, 2007

## **ISA 402 (Revised and Redrafted), “Audit Considerations Relating to an Entity Using a Service Organization”**

### **Objectives of Agenda Item**

1. To discuss a first draft of an Exposure Draft of the proposed ISA 402 (Revised and Redrafted), “Audit Considerations Relating to an Entity Using a Service Organization,” based on the clarity drafting conventions adopted by the IAASB.

### **ISA 402 (Revised and Redrafted) Task Force Members**

2. The members of the Task Force are:

Denise Esdon (Task Force Chair), IAASB member

Susan Jones, IAASB member

Kjell Larsson, IAASB member, supported by Kelly Ånerud, IAASB technical advisor

Kevin O'Donovan, KPMG, Ireland

Jens Poll, Moore Stephens, Germany

George Tucker, Chair of ISAE 3402 Task Force and IAASB technical advisor

Correspondence member: Claire Grayston, AUASB, Australia

### **Matters for IAASB Consideration**

3. **Alignment of ISA 402 with the risk assessment standards**

The ISA 402 project proposal stated that one of the objectives to be achieved in this project is to “align the standards and guidance with the risk assessment standards.” At the September 2006 IAASB and IAASB CAG meetings, members agreed with this approach.

Proposed ISA 402 (Revised and Redrafted) does so, not by repeating the requirements in ISA 315 (Redrafted) and ISA 330 (Redrafted), but rather by expanding on them as appropriate when an entity uses one or more service organizations that perform services that are part of the entity’s information system relevant to the audit. Agenda Item 6-B shows the alignment applied by the Task Force.

<i>Does the IAASB agree that the linkage to ISA 315 (Redrafted) and ISA 330 (Redrafted) is appropriate?</i>
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#### 4. **Types of service organizations covered by ISA 402**

There are many different types of service organizations used today, whose services span a number of dimensions, from:

- Traditional activities (such as payroll), to newer frontiers (such as application service provision over the internet);
- Routine activities (such as call centers), to complex arrangements where the service organization exercises considerable discretion (such as the controllership function);
- Activities that clearly have a direct effect on the user organization's internal control as it relates to the preparation of the financial statements (such as payroll processing), to broader activities that are not directly related to finance and accounting (such as waste disposal).

The Task Force is proposing (as discussed at the September IAASB and IAASB CAG meetings) for proposed ISA 402 (Revised and Redrafted) to consider the services of a service organization when they directly affect the user entity's internal control as it relates to the preparation of the financial statements – i.e., when those services, had they been conducted “in house,” would have been covered by the auditor in applying ISA 315 (Redrafted) and ISA 330 (Redrafted).

In some cases, a shared service center that provides services “internally” to a group of related companies may be considered a service organization from the perspective of the auditor of a component of the group. While the primary focus of proposed ISA 402 (Revised and Redrafted) is on an entity's use of a third party service organization, it may also be applicable, adapted as necessary in the circumstances, to situations where an entity uses a shared service center which provides services to a group of related entities.

<i>Does the IAASB agree with the proposed scope of ISA 402 (Revised and Redrafted)?</i>
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#### 5. **Additional documentation requirements**

Extant ISA 402 contains no explicit documentation requirements.

Paragraph 33 of ISA 315 (Redrafted) requires the auditor to document the following:

- Key elements of the understanding obtained regarding each of the aspects of the entity and its environment;
- Each of the internal control components specified in paragraphs 14-23 of ISA 315 (Redrafted);
- The sources of information from which the understanding was obtained; and
- The risk assessment procedures performed.

The Task Force did not identify documentation requirements that are not already covered by paragraph 33 of ISA 315 (Redrafted) or by the documentation requirements of [proposed] ISA 230 (Redrafted) and therefore has not included additional documentation requirements in proposed ISA 402 (Revised and Redrafted).

*Does the IAASB agree that no additional documentation requirements are needed in the proposed ISA 402 (Revised and Redrafted)?*

## 6. Other matters

As noted at the September IAASB meeting, the scope of ISAE 3402 will cover the needs of user auditors who intend to rely on a service auditor's report and who are within the scope of proposed revised ISA 402. Certain matters are currently being discussed by the ISAE 3402 Task Force which may affect the proposed ISA 402 (Revised and Redrafted). These matters include:

- The definitions and coverage of a Type A and Type B report; and
- The level of assurance in a service auditor's report on a service organization's controls.

The ISA 402 task force will incorporate any changes received from the ISAE 3402 task force into the definitions paragraphs in the proposed revised ISA and consider whether any additional changes are necessary.

## Material Presented

Agenda Item 6-A  
(Pages 1033– 1050)

Proposed ISA 402 (Revised and Redrafted)

Agenda Item 6-B  
(Pages 1051 – 1056)

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

Agenda Item 6-C  
(Pages 1057 – 1062)

Comparison of bold letter paragraphs in extant ISA 402 to requirements in proposed ISA 402 (Revised and Redrafted)

## Action requested

7. The IAASB is asked to review proposed ISA 402 (Revised and Redrafted) and provide comments to the Task Force.

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