



International Federation of Accountants

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Agenda Item

8

Committee: IAASB

Meeting Location: Washington, D.C.

Meeting Date: December 10-14, 2007

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

Objectives of Agenda Item

To review and approve for exposure a revised draft of proposed ISA 402 (Revised and Redrafted), “Audit Considerations Relating to an Entity Using a Third Party Service Organization.”

Task Force Composition

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
- Correspondence members: Claire Grayston, AUASB, Australia and Bernard Agulhas, IRBA, South Africa

Activities since Last IAASB discussions

The Task Force corresponded electronically to review the revised draft of the ISA now being presented.

In addition, the Chair of the ISA 402 Task Force and Staff have continued to monitor the developments of ISAE 3402 and have incorporated changes in the revised ISA where appropriate to ensure consistency between the two standards, in particular the definitions.

Matters for IAASB Consideration

At the September meeting, one member of the IAASB, with the support of others, was of the view that the requirements as drafted did not clearly illustrate what a user auditor would be required to do if the user auditor was unable to obtain a sufficient understanding of controls over the activities of the service organization through interaction with the user entity alone. It was requested that an

additional requirement be added to bridge the gap between the requirements of paragraphs 9 and 10 of Agenda Item 8-C. This requirement would be a conditional requirement that indicated that if the user auditor is unable to obtain the necessary understanding from the user entity alone, the user auditor shall be required to interact with the service organization. It was noted that the options in paragraph A14 of Agenda Item 8-C addressed the options available to the user auditor and could be considered for elevation to a requirement.

The task force has considered this view and has made changes to paragraph 11 of the proposed ISA to elevate the relevant application and other explanatory material. In addition, the discussion of the interaction with [proposed] ISA 705 (Revised and Redrafted)¹ has been retained as application and other explanatory material (see paragraph A16 of Agenda Item 8-A).

Material Presented

Agenda Item 8-A (Pages 3383 –3402)	Proposed ISA 402 (Revised and Redrafted) (Mark-up from the draft discussed during IAASB September Meeting)
Agenda Item 8-B (Pages 3403 –3422)	Proposed ISA 402 (Revised and Redrafted) (Clean Copy)
Agenda Item 8-C (Pages 3423 – 3442)	Proposed ISA 402 (Revised and Redrafted) (Draft discussed during the IAASB September Meeting)

Draft of the ISA to be Discussed at the Meeting

The Task Force proposes that **the mark-up** from the draft discussed during IAASB September Meeting (**Agenda Item 8-A**) be discussed at the meeting.

Action requested

The IAASB is asked to review the revised draft of proposed ISA 402 (Revised and Redrafted) and approve the proposed ISA for issue as an exposure draft.

¹ [Proposed] ISA 705 (Revised and Redrafted), “Modifications to the Opinion in the Independent Auditor’s Report.”