

ISA 402 AUDIT CONSIDERATIONS RELATING TO AN ENTITY USING A SERVICE ORGANIZATION

1 Objective

- a) To obtain an understanding of the nature and significance of the services provided by the service organisation and their effect on the user entity's internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement.
- b) To design and perform audit procedures responsive to those risks.

2 Risk Assessment Procedure

When obtaining an understanding of the user entity in accordance with SA 315, the user auditor shall obtain an understanding of how a user entity uses the services of a service organisation in the user entity's operations, including:

- a **The nature of the services** provided by the service organisation and the significance of those services to the user entity, including the effect thereof on the user entity's internal control
- b **The nature and materiality of the transactions** processed or accounts or financial reporting processes affected by the service organisation
- c **The degree of interaction** between the activities of the service organisation and those of the user entity
- d the relevant **contractual terms** for the activities undertaken by the service organisation

3 Further Audit Procedure- Test of Controls

- a Obtaining a Type 2 report, if available.

The user auditor shall determine whether the service auditor's report provides sufficient appropriate audit evidence about the effectiveness of the controls by performing following procedures:

- a-i Evaluating whether the description, design and operating effectiveness of controls at the service organisation is at a date or for a period that is appropriate for the user auditor's purposes
- a-ii Whether complementary user entity controls have been identified by the service organisation and verifying whether the user entity has designed and implemented such controls and, if so, testing their operating effectiveness
- a-iii Evaluating the adequacy of the time period covered by the tests of controls
- b Performing appropriate tests of controls at the service organisation
- c Using another auditor to perform tests of controls at the service organisation on behalf of the user auditor.

4 Sub-Service Organisation

- a If a service organisation uses a subservice organisation, the service auditor's report may either include or exclude the subservice organisation's relevant control objectives and related controls in the service organisation's description of its system and in the scope of the service auditor's engagement.

These two methods of reporting are known as the inclusive method and the carve-out method, respectively.

- b If the Type 1 or Type 2 report excludes the controls at a subservice organisation, and the services provided by the subservice organisation are relevant to the audit of the user entity's financial statements, the user auditor is required to apply the requirements of this ISA in respect of the subservice organization