

SA 402 - Audit Considerations Relating to an Entity Using a Service Organisation

Select True or False:

1. SA 402 expands on how the user auditor applies SA 315 and SA 330 in obtaining an understanding of the user entity, including internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement and in designing and performing further audit procedures responsive to those risks.
 - a) True
 - b) False
2. If reference to the work of a service auditor is made in the user auditor's report, then SA 402 mandates that such reference diminishes the user auditor's responsibility for the audit opinion.
 - a) True
 - b) False
3. The user auditor may make inquiries about the service auditor to the service auditor's professional organisation or other practitioners and inquire whether the service auditor is subject to regulatory oversight.
 - a) True
 - b) False
4. The use of a service organisation by smaller entities for the preparation of its financial statements relieves its management and those charged with governance of their responsibilities for the financial statements.
 - a) True
 - b) False
5. A type 1 report does not provide any evidence of the operating effectiveness of the relevant controls.
 - a) True
 - b) False
6. A user auditor should not consider controls at the sub-service organisation.
 - a) True
 - b) False
7. A Type 1 or Type 2 report that is for a period that is outside of the reporting period of a user entity should not be used by the user auditor even in obtaining a preliminary understanding of the controls implemented at the service organisation even if the report is supplemented by additional current information from other sources.
 - a) True
 - b) False

MCQs on Engagement and Quality Control Standards

8. Use of a service organisation always increases a user entity's risk of material misstatement.
 - a) True
 - b) False
9. A user auditor can use an auditor other than the auditor of the service organisation to perform tests of controls at the service organisation in order to obtain sufficient appropriate audit evidence about the operating effectiveness of those controls.
 - a) True
 - b) False
10. A user auditor can contact the service organisation, through the user entity, to request a discussion with the service auditor about the scope and results of the service auditor's work.
 - a) True
 - b) False

Fill in the blanks:

11. _____ user entity controls are the controls that the service organisation assumes, in the design of its service, will be implemented by user entities, and which, if necessary to achieve control objectives, are identified in the description of its system.
 - a) Supplementary
 - b) Complementary
12. Obtaining confirmation of balances and transactions from the service organisation _____ considered by the user auditor in determining the nature and extent of audit evidence to be obtained in relation to balances representing assets held or transactions undertaken by a service organisation on behalf of the user entity.
 - a) may be
 - b) may not be
13. The user auditor makes inquiries of the _____ management regarding whether the service organisation has reported any matters relating to fraud, non-compliance with laws and regulations or uncorrected misstatements attributable to the service organisation's management or employees and evaluates whether any matters reported by the service organisation affect the nature, timing and extent of the user auditor's further audit procedures.
 - a) User entity's
 - b) Service organisation's
14. A service auditor is defined as an auditor who, at the request of the _____, provides an assurance report on the controls of a service organisation.
 - a) User entity
 - b) Service organisation

Choose the correct option from the following:

15. SA 402 deals with:
- a) The auditor's responsibility to apply the concept of materiality in planning and performing an audit of financial statements
 - b) The user auditor's responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organisations
 - c) The auditor's responsibility to design and implement responses to the risks of material misstatement identified and assessed by the auditor
 - d) none of the above
16. SA 402 does not apply to:
- a) Services provided by financial institutions that are limited to processing, for an entity's account held at the financial institution, transactions that are specifically authorised by the entity, such as the processing of checking account transactions by a bank or the processing of securities transactions by a broker
 - b) The audit of transactions arising from proprietary financial interests in other entities, such as partnerships, corporations and joint ventures, when proprietary interests are accounted for and reported to interest holders
 - c) Both the above
 - d) None of the above
17. A subservice organisation is defined as:
- a) A third-party organisation (or segment of a third party organisation) that provides services to user entities that are part of those entities' information systems relevant to financial reporting
 - b) A service organisation used by another service organisation to perform some of the services provided to user entities that are part of those user entities' information systems relevant to financial reporting
 - c) An entity that uses a service organisation and whose financial statements are being audited
 - d) None of the above
18. The user auditor shall refer to the work of a service auditor in the user auditor's report in following circumstance/s:
- a) Where it is a requirement by law or regulation to refer to the work of a service auditor in the user auditor's report
 - b) If reference to the work of a service auditor is relevant to an understanding of a modification to the user auditor's opinion
 - c) Both the above
 - d) None of the above

MCQs on Engagement and Quality Control Standards

19. If the user auditor is unable to obtain a sufficient 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 to provide a basis for the identification and assessment of risks of material misstatement from the user entity, the user auditor shall obtain that understanding from one or more of the following procedures:
- I. Obtaining a Type 1 or Type 2 report, if available.
 - II. Contacting the service organisation, through the user entity, to obtain specific information.
 - III. Visiting the service organisation and performing procedures that will provide the necessary information about the relevant controls at the service organisation.
 - IV. Using another auditor to perform procedures that will provide the necessary information about the relevant controls at the service organisation.
- Choose the correct option:**
- a) Only I & II
 - b) Only IV
 - c) All of the above
 - d) I or II or III
20. In determining the sufficiency and appropriateness of the audit evidence provided by a Type 1 or Type 2 report, the user auditor shall be satisfied as to the:
- a) service auditor's professional competence and independence from the service organisation
 - b) adequacy of the standards under which the said report was issued
 - c) Both (a) and (b)
 - d) None of the above
21. SA 402 defines a user auditor as an auditor who audits and reports-
- a) On the financial statements of a subservice organisation
 - b) On the financial statements of a user entity
 - c) On the financial statements of a service organisation
 - d) None of the above