



Date: 27 August, 2010

Ref no: 14-2008-0111

## Description of content of ISSAI 1402

### *Audit Considerations Relating to an Entity Using a Service Organization*

Reading this description is not a substitute for reading the ISA or ISSAI itself.

ISSAI 1402 is comprised of International Standard on Auditing (ISA) 402 – Audit Considerations Relating to an Entity Using a Service Organization, and a corresponding Practice Note. The ISA and the Practice Note are read together.

#### *Authority*

Public Sector auditors using the ISAs or ISSAIs as the authoritative standard shall comply with all ISAs or ISSAIs relevant to the audit. An ISA or ISSAI is relevant to the audit when the ISA or ISSAI is in effect and the circumstances addressed by the ISA or ISSAI exist. The auditor shall not represent compliance with ISAs or ISSAIs in the auditor's report unless the auditor has complied with the requirements of all ISAs or ISSAIs relevant to the audit.

#### *Description of the ISA*

ISA 402 deals with the user auditor's responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organizations. Specifically, it expands on how the user auditor applies ISA 315<sup>1</sup> and ISA 330<sup>2</sup> 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.

#### *Objective of the auditor in terms of the ISA*

The objectives of the user auditor, when the user entity uses the services of a service organization, are:

- a. To obtain an understanding of the nature and significance of the services provided by the service organization and their effect on

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<sup>1</sup> ISA 315, Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment.

<sup>2</sup> ISA 330, The Auditor's Responses to Assessed Risks.

- the user entity's internal control relevant to the audit, sufficient to identify and assess the risks of material misstatement; and
- b. To design and perform audit procedures responsive to those risks.

Among other matters, the requirements in this ISA deal with:

- a. The need to understand how a user entity uses the services of a service organization in the user entity's operations, including the nature of the relationship between the user entity and the service organization and the relevant contractual terms for the activities undertaken by the service organization.
- b. Using a type 1 or type 2 report to support the user auditor's understanding of the service organization.
- c. A type 1 report comprises a description, prepared by management of the service organization, of the service organization's system, control objectives and related controls together with a report by the service auditor expressing an opinion on the description and the suitability of the design of the controls to achieve the specified control objectives.
- d. A type 2 report comprises the elements of the type 1 report plus, in some cases the operating effectiveness of the controls throughout a specified period may be included in the description of the service organization's system. The auditor's report would include a description of the service auditor's tests of the controls and the results thereof.
- e. How the auditor should respond to the assessed risks of material misstatement, including using a type 2 report as audit evidence that controls at the service organization are operating effectively.
- f. Reporting by the user auditor.

#### *Description of the Practice Note*

The Practice Notes provides supplementary guidance for auditors applying ISA 402 when conducting financial audits of public sector entities.

#### *Content of the Practice Note*

The Practice Note provides additional guidance for public sector auditors related to:

- a. Overall considerations relating to additional objectives or public expectations when a public sector entity uses a service organization.
- b. Scope of the ISA as it relates to organizations that provide services that are integral to the entity's operations.
- c. Reporting requirements related to service organizations that may be included in the broader public sector objectives.
- d. Definitions of the terms service 'organization' and 'subservice organization'.
- e. Obtaining an understanding of the services provided by a service organization, including internal control.

- f. Specific considerations for public sector auditors with a judicial role.