

## Agenda Item 6-C

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

Extant ISA 402		Proposed ISA 402 (Revised and Redrafted)	
Para		Para	
			<b>Objective</b>
2	The auditor should consider how an entity's use of a service organization affects the entity's internal control so as to identify and assess the risk of material misstatement and to design and perform further audit procedures.	7	The objective of the auditor is to obtain sufficient appropriate audit evidence when an entity uses a service organization that performs services that are part of the entity's information system relevant to financial reporting in order to identify and assess the risks of material misstatement and design and perform further audit procedures to address the assessed risks.
			<b>Obtaining an Understanding of the Services Provided by a Service Organization</b>
5	In obtaining an understanding of the entity and its environment, the auditor should determine the significance of service organization activities to the entity and the relevance to the audit.	9	When obtaining an understanding of the entity in accordance with ISA 315 (Redrafted), the user auditor shall obtain an understanding of how a user entity uses a service organization in its operations, including: <ul style="list-style-type: none"> <li>(a) The nature of the services provided by the service organization and the significance of those services to the user entity, including its internal control; and</li> <li>(b) The nature and materiality of the transactions processed or accounts affected by the service organization and the</li> </ul>

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			degree of interaction between the activities of the service organization and those of the user entity.
7	If the auditor concludes that the activities of the service organization are significant to the entity and relevant to the audit, the auditor should obtain a sufficient understanding of the service organization and its environment, including its internal control, to identify and assess the risks of material misstatement and design further audit procedures in response to the assessed risks.	10	When obtaining an understanding of internal control relevant to the audit in accordance with ISA 315 (Redrafted), the user auditor shall evaluate the user entity's design and implementation of relevant controls as they relate to the services performed by the service organization, including those that are applied to the transactions processed by the service organization, and relevant monitoring controls.
		11	In considering the various sources of information about a service organization, the user auditor shall determine whether the user auditor's understanding of the services provided by the service organization is sufficient to perform risk assessment procedures as a basis for the identification and assessment of risks of material misstatement.
			<b>Assessing the Risks of Material Misstatement</b>
		12	When the user auditor's risk assessment includes an expectation that the service organization's controls are operating effectively for certain assertions for which controls are applied only at the service organization, the user auditor shall obtain audit evidence about the operating effectiveness of those controls from one or more of the following procedures:  (a) Obtaining a Type B report that describes both the relevant

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			<p>tests of controls and the results of the service auditor's tests of those controls;</p> <p>(b) Performing appropriate tests of controls at the service organization; or</p> <p>(c) Requesting the service auditor to perform tests of controls at the service organization on behalf of the user auditor.</p>
			<b>Using a Report on Controls at a Service Organization as Audit Evidence</b>
11	When using a service organization auditor's report, the auditor should consider the nature of and content of that report.	13	<p>When the user auditor decides to use a Type A report as audit evidence about the design and implementation of the service organization's controls for certain assertions, the user auditor shall:</p> <p>(a) Evaluate the sufficiency and appropriateness of the evidence provided for the relevant assertions; and</p> <p>(b) Determine whether complementary user entity controls identified by the service organization are relevant to the user entity and if so, obtain an understanding of whether the user entity has designed and implemented such controls.</p>
13	The auditor should consider the scope of work performed by the service organization auditor and should evaluate the usefulness and appropriateness of reports issued by the service organization.		
16	For those specific tests of control and results that are relevant, the auditor should consider whether the nature, timing and extent of such tests provide sufficient appropriate audit evidence about the operating effectiveness of the internal control to support the auditor's assessed risks of material	14	When the user auditor decides to use a Type B report as audit evidence about the design and implementation of the service organization's controls for certain assertions and that the service organization's controls are operating effectively, the

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	misstatement.		<p>user auditor shall:</p> <ul style="list-style-type: none"> <li>(a) Evaluate the sufficiency and appropriateness of the evidence provided about the effectiveness of controls for the relevant assertions;</li> <li>(b) Determine whether complementary user entity controls identified by the service organization are relevant to the user entity and if so, obtain an understanding of whether the user entity has designed and implemented such controls and if so, test their operating effectiveness; and</li> <li>(c) Evaluate the specific tests of controls performed by the service auditor and the results thereof relevant to those assertions to determine if sufficient appropriate audit evidence has been obtained about the operating effectiveness of the controls to support the user auditor's risk assessments.</li> </ul>
9	If the auditor uses the report of a service organization auditor, the auditor should consider making inquiries concerning that auditor's professional competence in the context of the specific assignment undertaken by the service organization auditor.	15	In determining whether the service auditor's assurance report provides sufficient appropriate audit evidence to support the user auditor's opinion, when the service auditor is not well known to the user auditor, the user auditor shall inquire about the service auditor's professional reputation, competence and independence.
18	When the auditor uses a report from the auditor of a service organization, no reference should be made in the entity's auditor's report to the auditor's report on the service organization.	16	When the user auditor uses an assurance report from a service auditor, the user auditor shall not refer to the service auditor in the user auditor's report containing an unmodified opinion unless required to do so by law or regulation. If the user

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			auditor is required to do so, the user auditor's report shall clearly indicate that such reference does not alter the user auditor's opinion as stated in the report, or diminish the user auditor's sole responsibility for the report.
			<b>Other Audit Evidence Considerations Regarding Service Organizations</b>
		17	Based on the user auditor's understanding of the aspects of the user entity's information system relating to relevant services provided by the service organization and the user auditor's responses to assessed risks in accordance with ISA 330 (Redrafted), the user auditor shall: <ul style="list-style-type: none"> <li>(a) Assess whether sufficient appropriate audit evidence concerning the relevant financial statement assertions is available from records held at the user entity; and if not,</li> <li>(b) Perform further audit procedures to obtain sufficient appropriate audit evidence or request the service auditor to perform those procedures on the user auditor's behalf.</li> </ul>
			<b>Fraud, Illegal Acts and Uncorrected Misstatements in Relation to Activities at the Service Organization</b>
		18	The user auditor shall inquire of management of the user entity whether the service organization has reported any fraud, illegal acts or uncorrected misstatements that affect the user entity and if so, the user auditor shall evaluate how they affect the nature, timing and extent of the user auditor's

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			further audit procedures.
			<b>Communications with Management and Those Charged with Governance</b>
		19	As required by ISA 315 (Redrafted) and ISA 330 (Redrafted), the user auditor shall communicate material weaknesses in internal control identified during the audit on a timely basis to management at an appropriate level of responsibility and, as required by [proposed] ISA 260 (Revised and Redrafted), “Communication with Those Charged with Governance,” with those charged with governance (unless all of those charged with governance are involved in managing the entity).