

SA 402 - Audit Considerations relating to Entity using Service Org

<p>Service provided by Service Org are relevant to audit of user entity FS if those services & controls over them are part of user entity's FR IS</p> <p>Service Org's services are part of user entity's FR IS, if they affect</p> <ul style="list-style-type: none"> • How user entity IS captures significant event Transactions significant to user entity's FS • Procedures by which transactions are initiated & reported • Controls surrounding journal entries • Related A/c record use to report transaction • FR process used to prepare user entity's FS 	<p>There are 2 types of Report as below</p> <p>Type 1 report - which comprises</p> <ul style="list-style-type: none"> • Description of service org's system and related controls as at specified date • Report by service auditor to convey reasonable assurance on above <p>Type 2 report - which comprises</p> <ul style="list-style-type: none"> • Description of service org's system and related controls & operating effectiveness throughout period • Report by service auditor to convey reasonable assurance on above • Description of service auditor's Tests of Controls (TOC) and its results
<p>Obtaining understanding of services provided by Service Org (RAP)</p> <p>User auditor shall obtain understanding of how user entity uses service of service Org, including-</p> <ul style="list-style-type: none"> • Nature of services & significance of those services to user entity • Nature & materiality of transactions or FR affected by service Org • Degree of interaction b/w service Org & user entity. It refers to extent to which user entity is able to implement controls over processing performed by service Org • Nature of relationship b/w user entity & Service Org 	<p>Auditor's Considerations</p> <p>User auditor shall determine if sufficient understanding of services & their effect on user entity's IC has been obtained to assess ROMM</p> <p>If user auditor is unable to obtain sufficient understanding from user entity, he shall -</p> <ul style="list-style-type: none"> • Obtain Type 1 or Type 2 report, if available • Contact Service Org, through user entity, to obtain info • Visit Service Org & performing procedures to obtain info • Use another auditor to perform procedures to obtain info
<p>Using Type 1 or Type 2 Report</p> <p>In determining SAAE provided by Type 1 or Type 2 report, user auditor shall be satisfied about -</p> <ul style="list-style-type: none"> • Service auditor's professional competence (except if ICAI Member) & Independence • Adequacy of standards under which Type 1 or Type 2 report was issued 	<p>Responding to Assessed ROMM (FAP)</p> <p>User auditor shall -</p> <ul style="list-style-type: none"> • Determine whether SAAE is available from records held at user entity & if not • Perform FAP to obtain SAAE or use another auditor to perform FAP at service Org

<p>If user auditor plans to use Type 1 or Type 2 report to support his understanding of controls at service Org, he shall -</p> <ul style="list-style-type: none"> • Evaluate whether description of controls at service org is at date or period • Evaluate SAAE provided by report for understanding of user entity's IC • Determine if complementary user entity controls are relevant & user entity has designed and implemented such controls <p>Complementary user entity controls refer to controls that service Org assumes will be implemented by user entities</p>	<p>Tests of Controls</p> <p>When user auditor's risk assessment includes expectation that controls at Service Org are operating effectively, user auditor shall obtain audit evidence about operating effectiveness of those controls by -</p> <ul style="list-style-type: none"> • Obtaining Type 2 report, if available • Performing TOC at service org <p>Using another auditor to perform TOC at service org</p>
<p>Using Type 2 report as audit evidence</p> <p>If user auditor plans to use Type 2 report as audit evidence, user auditor shall determine whether service auditor's report provides SAAE about effectiveness of controls by -</p> <ul style="list-style-type: none"> • Evaluating whether description and operating effectiveness of controls at service org is at date or period • Determining whether complementary user entity controls are relevant and user entity has designed and implemented such controls &, if so, testing their operating effectiveness • Evaluating adequacy of time period covered by TOC & time elapsed since performed • Evaluating whether TOC performed by service auditor provide SAAE 	<p>Reporting by user auditor</p> <ul style="list-style-type: none"> • User auditor shall modify opinion in user auditor's report if user auditor is unable to obtain SAAE regarding services provided by Service Org • User auditor shall not refer to work of service auditor in user auditor's report containing unmodified opinion unless required by law or regulation • If such reference is required by law or regulation or If such reference is relevant to understanding of modification, user auditor's report shall indicate that such reference does not diminish user auditor's responsibility for that opinion
<p>Info regarding Sub-Service Organisation</p> <ul style="list-style-type: none"> • If service org uses sub-service org, service auditor's report may include (inclusive method) or exclude (carve out method) sub-service org controls in service org's description of its system • If Type 1 or Type 2 report excludes controls at sub-service org and services are relevant to user entity's FS, then apply this SA for sub-service org as well 	