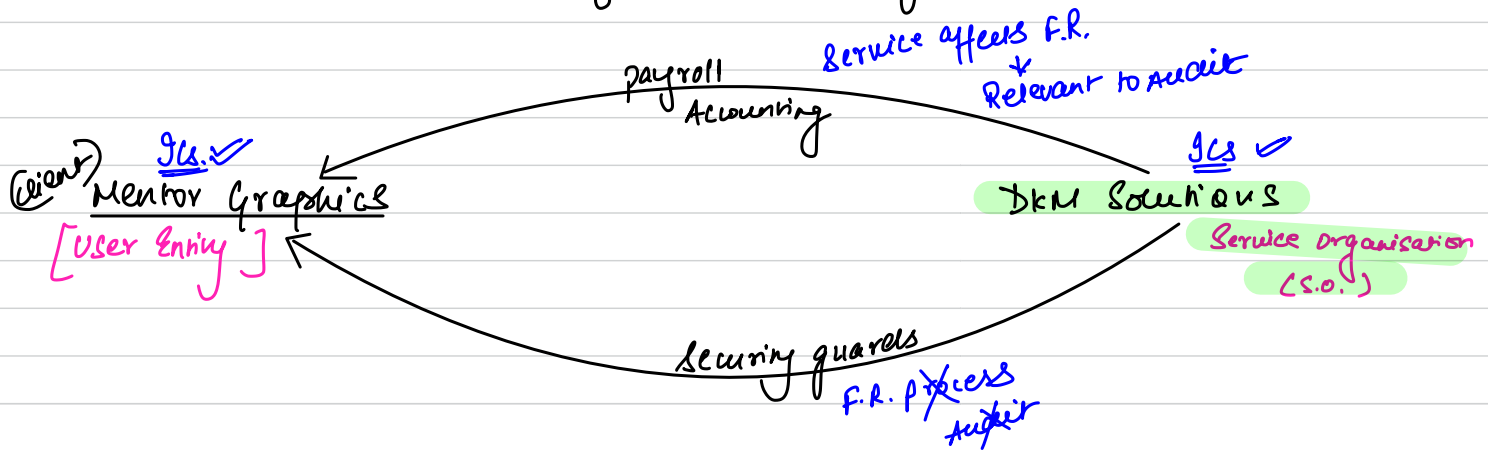
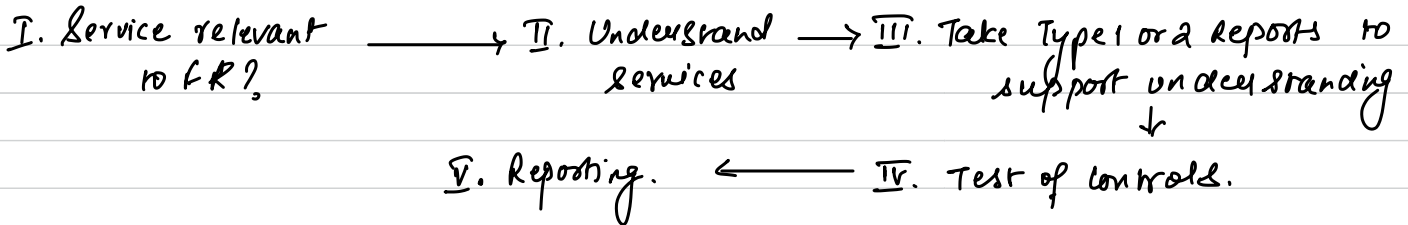


SA 402: Audit Considerations related to Entity using a Service Organisation



SA 402



Q How to know if SO's services are relevant to user entity's financial reporting process?

SO's services are relevant to user entity's F.R.P., if services affect any of following:
[Transⁿ → JE → ledger → TB → FS → Adj.]

Transⁿ → ① SCoTs: Significant class of Transⁿ & Revenue/Purchases.
→ ② How info. system captures transⁿ other than SCoTs.

- ③ Procedures [Manual / Automated] in which Transⁿ are initiated, recorded, processed, verified, rfd. to G.L. & reported in FS.
- ④ AIC Records
- ⑤ Financial reporting process to prepare FS.
- ⑥ Controls surrounding JEs including non-standard JEs. i.e.
 - Non-Recurring,
 - Unusual
 - Adjustment entries.

NOT

Obtaining understanding of services of S.O.

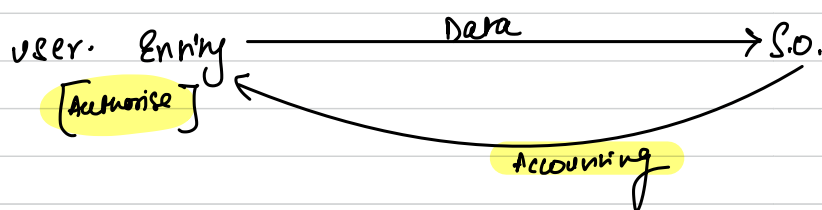
a) Nature & significance of service to user entity.

Can obtain info. from contract, user manuals, reports of ^(jaidw) service auditor etc.

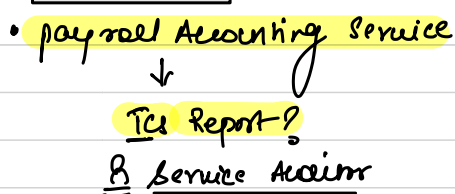
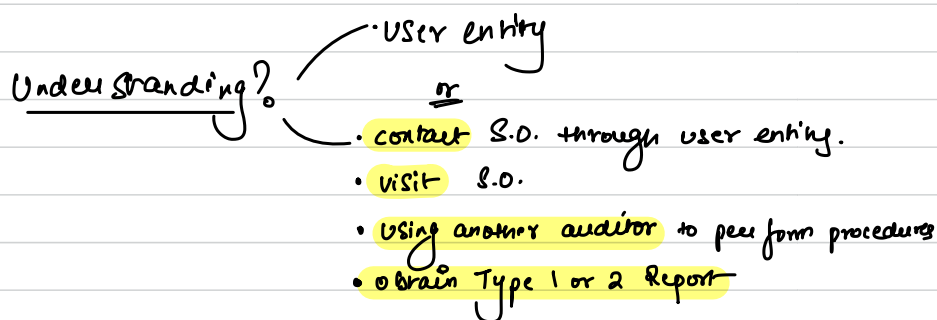
b) Nature & materiality of transⁿ processed by S.O.

eg. Payroll A/c service [significant] → (Transⁿ) Employee benefit exp. (material).

c) Degree of interaction b/w User Entity & S.O. activities.



d) Nature of relationship b/w user entity & S.O. including contractual terms.



2 Types of Reports.

Type 1

Type 2

• S.O's description of system.

• S.O's description of system.

• written assertion by S.O.:

• written assertion by S.O.:

S.O's system described fairly.

Controls related to control objectives are suitably designed

S.O's system described fairly.

Controls related to control objectives are suitably designed

Controls operated effectively.

at a specified date.

throughout specified period.

• Service Auditor's Assurance Report giving Reasonable assurance, on above matters.

• Service Auditor's Assurance Report giving Reasonable assurance, on above matters.

+

Description (TOCs + Results).

Using a Type 1 or 2 Report

Support user auditor's understanding of S.O.

Be satisfied about

- Service Auditor's professional competence (except if CA.)
- Independence for S.O.
- Adequacy of standards under which Type 1 or 2 report issued. (SAE 3402)

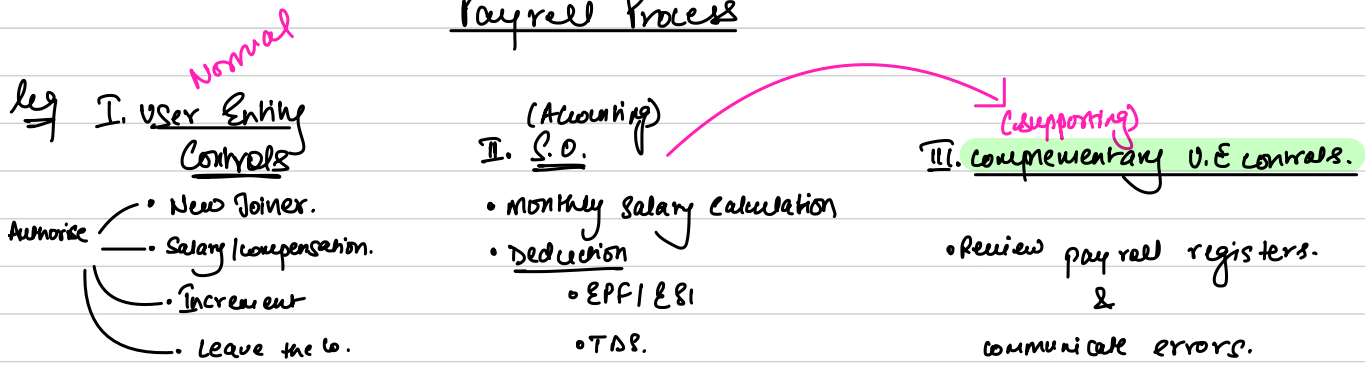
User auditor shall evaluate:

- Description & design of controls at S.O. [at a date / appt. period]. ^{Type 1} ^{Type 2}
- SAAE obtained by report for user entity's controls relevant for audit.
- Complementary user entity's controls identified by S.O?

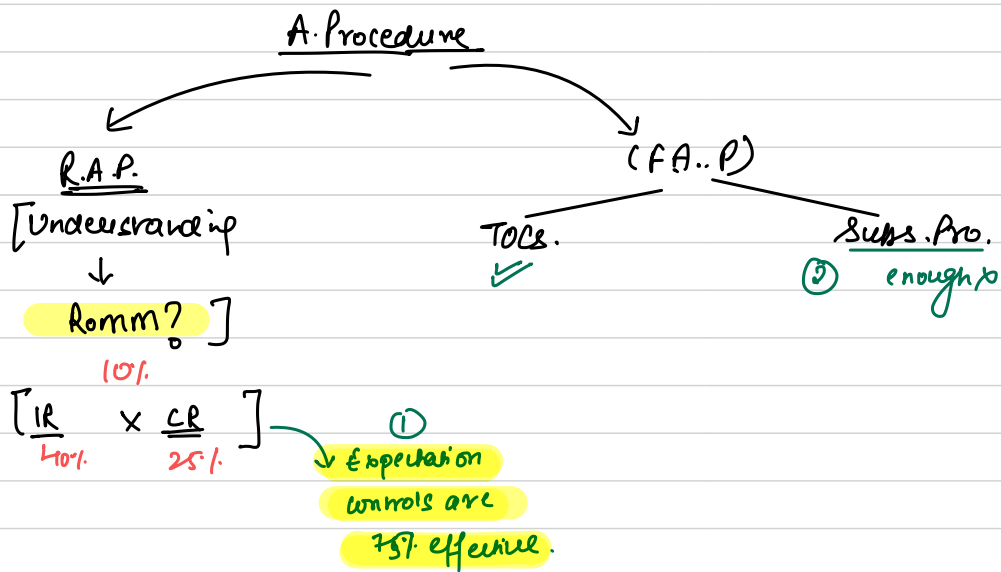
↓
(yes)

Understand if user entity designed & implemented such controls.

Payroll Process



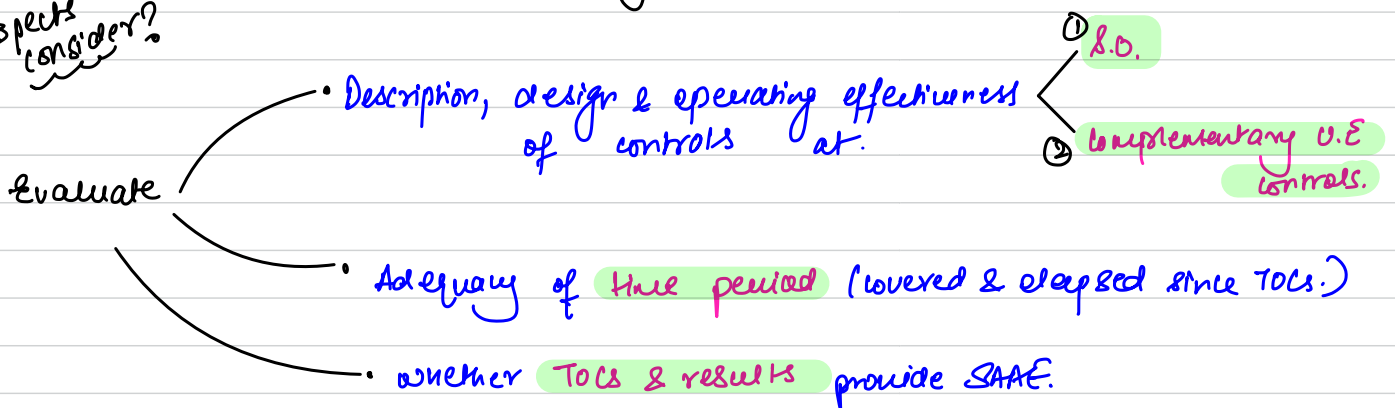
Tocs karte kyu?

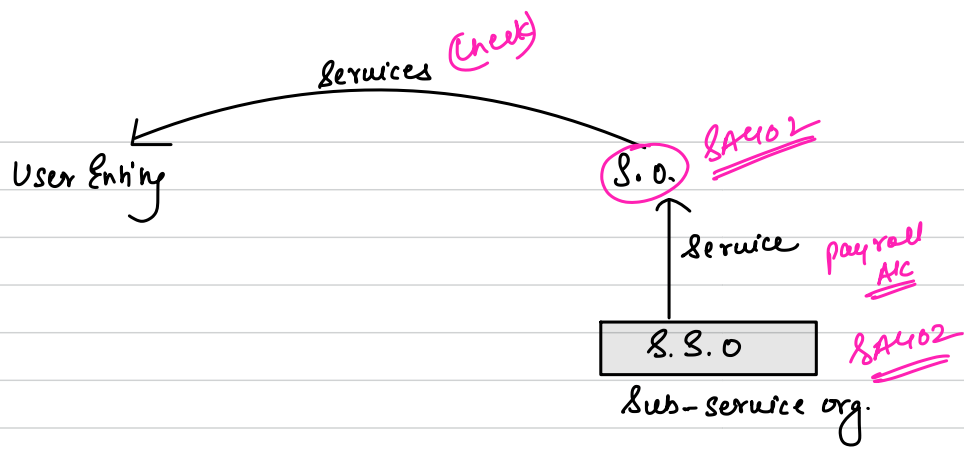


⇒ Expectation ⇒ controls at S.O. are effective. ⇒ Tocs → Type 2 report or Perform or Another Auditor.

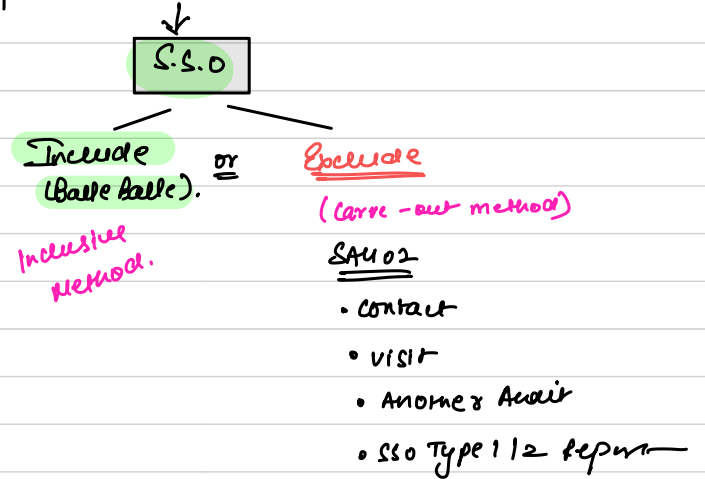
Using Type 2 Report to obtain Evidence for operating effectiveness of controls

Aspects consider?





Service Auditor → Type 1 or 2 Report → Controls → Sp.



S4402: Audit considerations for user entity using a S.O.

1. S.O. Services relevant to user entity's FR process

- Transⁿ - SCOTs
- Procedures } manual/
- How info. system captures NSCOTs } automated
- Atc Records } automated
- F.R.P (Prepare FS)
- Nonstd JEs (NUA)

2. Understanding Nature & Extent of Services of S.O.

- Nature & significance of services
- Degree of interaction
- Nature & materiality of Transⁿ
- Nature of relationship

3. Understanding → How? • user entity → contact S.O. / visit / another auditor / Type 1/2 Report.

Type 1 Report ⇒ Description of system + S.O.'s Assertion (fair description + controls designed) → Date.
+ R.A. Report

Type 2 Report ⇒ Description of system + S.O.'s assertion (fair description + controls designed + op effect.)
+ R.A. (+ TOCs & Results) throughout period.

⇒ Using Type 1/2 Reports to support understanding of S.O.

Be satisfied [Service Auditor (competence, independence, S.O.s.) + Evaluate

- D&D of S.O. controls — Date period.
- UE controls → SAAE?
- Comp. UE controls identified → D&I implementation?

4. TOCs (kyu?) ⇒ Expectation controls operating effectively

↓
S.O. [Type 2 / Test / Other auditor]

5. Type 2 Report → SAAE for op. effectiveness of controls → Aspects?

Description, design & op. effectiveness of controls

- SO
- Comp. UE controls
- + Period (covered elapsed)
- + TOCs & Results (SAAE?)

6. Fraud, NOCLAA, uncorrected misst. at S.O. → Inquire! → NTE of AAP + Reporting concern

7. A.R report → unmodified opinion → Refer x

↓
modified opinion (Relevant) → Refer ✓