SA-402 "Audit Considerations Relating to an Entity Using Service Org." (S.O.)

Auditor's Objective

- Obtain Understanding of → Nature & Significance of Services provided by S.O.
  → their Effect on User's entity I.C. relevant to Audit, Sufficient to Identify & assess ROMM.
- Design & perform A. procedures responsive to those Risks.

Service Auditor :- An auditor who at request of S.O., provides Assurance Report on Controls of S.O.

S.O. :- Third party org. providing services to User entities that are part of entity's Info. Systems relevant to fin. Reporting.

User Auditor → Auditor of User Entity

User Entity → Uses S.O. services

Obtaining Understanding of Services provided by S.O.

- how Entity uses Services of S.O. in User Entity's Operations.
- Nature & Significance of Service
- Nature & materiality of trans. processed / Financial Reporting processes affected by S.O.
- Degree of Interaction b/w S.O. and User Entity
- Relationship, relevant Contractual terms for Activities undertaken by S.O.

Auditor's Considerations *

- Evaluate DOT of Relevant Controls of User Entity that relate to Services of S.O.
- Objective attained or Not
- Unable to obtain Understanding from User Entity, obtain from:-
  → Type 1 or Type 2 Report, if available
  → Contacting S.O. → Visiting S.O.
  → Another auditor to perform procedures about Controls of S.O.

Info. w.r.t Controls at a Sub-service Org.

- S.O. uses Sub-S.O.

A. Report of S.O.
→ may Include
→ may Not Include

Sub-S.O.'s Relevant Control Obj. & related Controls in S.O.'s description of its System & in Scope of Service Auditor's Engagement.

Two Methods of Reporting
→ Inclusive Method
→ Carve-Out Method

- If Type 1 / Type 2 report Excludes

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But Sub-S.O. Services relevant for Audit of User Entity's F.S., User Auditor to apply requirements of this SA for Sub-S.O.

• NTE of work to be performed by U. Auditor regarding services by Sub S.O depends on Nature & Significance of those services & Relevance to Audit.

Responding to Assessed ROMM

• whether SAAE w.r.t F.S. assertions are available from records held at User Entity.

If NOT:- • Perform FAP to obtain SAAE

or • Use Another Auditor at S.O. to perform those procedures.

Audit procedures in Case of fraud/ Non-Compliance

• Inquire Mgt. whether S.O. has reported instances of any fraud, Non-Compliance with L&R or Uncorrected Misst. affected FS of User Entity.

• Evaluate impact on NTE of FAP including Auditor's Conclusions & Report

Reporting by User Auditor

Modify Opinion

If unable to obtain SAAE regarding services by S.O, relevant to User Entity's Audit of F.S.

User Auditor shall NOT refer to report of Service auditor UNLESS required by law & Regulations.

TYPE I Report

Report on • Design &
• Description

of I.C

prepared by Mgt. of S.O. about S.O.'s system, Control Obj. & Related Controls that have been designed & Implemented at a Specified date &

Report by Service Auditor

Type II Report

Report on • Design
• Description &
• Operating Effectiveness of Controls at S.O

by mgt. of S.O. (Type I) + throughout a specified period & in some cases, their Operating Effectiveness throughout a Specified period &

Report by Service Auditor

• (Type I)

• Operating Effectiveness of Controls

• A description of Service Auditor's TOC & the results thereof.