

ASA 402
(October 2009)

Explanatory Statement

ASA 402 Audit Considerations Relating to an Entity Using a Service Organisation

Issued by the **Auditing and Assurance Standards Board**



Australian Government

Auditing and Assurance Standards Board

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For approval

Explanatory Statement ASA 402 *Audit Considerations Relating to an Entity Using a Service Organisation*

Reasons for Issuing Auditing Standard ASA 402 *Audit Considerations Relating to an Entity Using a Service Organisation*

The Auditing and Assurance Standards Board (AUASB) issues Auditing Standard ASA 402 *Audit Considerations Relating to an Entity Using a Service Organisation* pursuant to the requirements of the legislative provisions and the Strategic Direction explained below.

The AUASB is an independent statutory board of the Australian Government established under section 227A of the *Australian Securities and Investments Commission Act 2001*, as amended (ASIC Act). Under section 336 of the *Corporations Act 2001* (the Act), the AUASB may make Auditing Standards for the purposes of the corporations legislation. These Auditing Standards are legislative instruments under the *Legislative Instruments Act 2003*.

Under the Strategic Direction given to the AUASB by the Financial Reporting Council (FRC), the AUASB is required to have regard to any programme initiated by the International Auditing and Assurance Standards Board (IAASB) for the revision and enhancement of the International Standards on Auditing (ISAs) and to make appropriate consequential amendments to the Australian Auditing Standards. The IAASB has undertaken a programme to redraft, and in some cases, revise, in “clarity” format, the entire suite of ISAs. Accordingly, the AUASB has decided to revise and redraft the Australian Auditing Standards using the equivalent redrafted ISAs.

The Auditing Standard conforms with ISA 402 *Audit Considerations Relating to an Entity Using a Service Organization*.

Operative Date

ASA 402 *Audit Considerations Relating to an Entity Using a Service Organisation* is operative for financial reporting periods commencing on or after 1 January 2010.

Purpose of Auditing Standard ASA 402 *Audit Considerations Relating to an Entity Using a Service Organisation*

The purpose of the Auditing Standard is to establish requirements and to provide application and other explanatory material to user auditors regarding

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their responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organisations.

Main Features

The Auditing Standard:

- (a) specifically expands on how the user auditor applies ASA 315 *Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment* and ASA 330 *The Auditor's Responses to Assessed Risks* in relation to the user entity;
- (b) provides relevant definitions;
- (c) requires the auditor to obtain an understanding of the services provided by a service organisation, including internal controls;
- (d) describes how type 1 and type 2 reports are to be used;
- (e) provides requirements on responding to assessed risks of material misstatement, including the tests of controls; and
- (f) provides requirements on reporting by the user auditor.

Preamble and Overall Objectives

ASA 402 is to be read in conjunction with ASA 101 *Preamble to Australian Auditing Standards*, which sets out the intentions of the AUASB on how the Australian Auditing Standards, operative for financial reporting periods commencing on or after 1 January 2010, are to be understood, interpreted and applied. ASA 402 is to be read also in conjunction with ASA 200 *Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Australian Auditing Standards*.

Process of making Australian Auditing Standards

The AUASB's Strategic Direction, *inter alia*, provides that the AUASB develop Australian Auditing Standards that:

- have a clear public interest focus and are of the highest quality;

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- use the International Standards on Auditing (ISAs) of the International Auditing and Assurance Standards Board (IAASB) as the underlying standards;
- conform with the Australian regulatory environment; and
- are capable of enforcement.

In implementing the FRC's Strategic Direction, the AUASB has undertaken a process of revision and redrafting of the Australian Auditing Standards that has:

- updated the form, layout and content of the Australian Auditing Standards;
- addressed the legal enforceability of mandatory obligations;
- maintained clarity of the auditor's obligations;
- incorporated appropriate references to Australian laws and regulations;
- clearly identified, by use of the prefix "Aus", AUASB additions to paragraphs in the requirements or the application and other explanatory material; and
- included other amendments as necessary.

Consultation Process prior to issuing the Auditing Standard

The AUASB has consulted publicly as part of its due process in developing the Auditing Standard. Exposure Draft ED 13/09 *Proposed Auditing Standard: Audit Considerations Relating to an Entity Using a Service Organisation* (Re-issuance of ASA 402), was issued on 17 April 2009 with a 30 day comment period.

As an integral part of its consultation with the public, the AUASB sought comments on specific questions including:

- the completeness and accuracy of references in the Auditing Standard to relevant laws and regulations;

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- the significant costs, if any, and benefits, of compliance with any additional requirements under the Auditing Standard; and
- whether or not there exist any matters of public interest affecting the issuance of the Auditing Standard.

Submissions were received by the AUASB and these were considered as part of the development and finalisation of the Auditing Standard.

Regulation Impact Statement

A *Regulation Impact Statement* (RIS) has been prepared in connection with the redrafting of Australian Auditing Standards in “clarity” format, including *ASA 402 Audit Considerations Relating to an Entity Using a Service Organisation*.

The RIS has considered both the expected benefits and expected costs of the introduction of clarified auditing standards, including comments provided by stakeholders during the redrafting process. It concluded that expected benefits to users of audit services, users of audit reports, auditors and the Australian economy in general are, on balance, likely to outweigh expected costs.

Main Differences from ASA 402 Audit Considerations Relating to Entities Using Service Organisations (April 2006)

The main differences between the Auditing Standard and the Auditing Standard that it supersedes, *ASA 402 Audit Considerations Relating to Entities Using Service Organisations* (April 2006), are:

1. Auditing Standard ASA 402 is written in the “clarity” format using the equivalent International Standard on Auditing (*ISA 402 Audit Considerations Relating to an Entity Using a Service Organization*) as the underlying Auditing Standard. Consequently, the format, layout, and paragraph numbering styles are different from the extant Auditing Standard.
2. The following requirements included in the Auditing Standard are in part, or full, additional to the extant Auditing Standard:
 - (a) If the user auditor plans to use a type 1 or a type 2 report that excludes the services provided by a subservice

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organisation and those services are relevant to the audit of the user entity's financial report, the user auditor shall apply the requirements of this Auditing Standard with respect to the services provided by the subservice organisation. (Ref: Para. 18)

- (b) The user auditor shall enquire of management of the user entity whether the service organisation has reported to the user entity, or whether the user entity is otherwise aware of, any fraud, non-compliance with laws and regulations or uncorrected misstatements affecting the financial report of the user entity. The user auditor shall evaluate how such matters affect the nature, timing and extent of the user auditor's further audit procedures, including the effect on the user auditor's conclusions and user auditor's report. (Ref: Para. 19)
 - (c) If reference to the work of a service auditor is relevant to an understanding of a modification to the user auditor's opinion, the user auditor's report shall indicate that such reference does not diminish the user auditor's responsibility for that opinion. (Ref: Para. 22)
3. Certain guidance material in the extant Auditing Standard has been elevated to requirements.
 4. To improve clarity, certain requirements and guidance in the extant Auditing Standard have been re-written, however, the equivalent meanings have been retained.
 5. Application and other explanatory material, linked to the additional requirements listed at 2. above is also included in the Auditing Standard.