

For the attention of Jim Sylph
International Federation of Accountants
545 Fifth Avenue, 14th Floor
New York, NY, 10017
USA

30 April 2008

Dear Sir

IAASB Exposure Draft – “Audit Considerations Relating to an Entity Using a Third Party Service Organization”

We appreciate the opportunity to comment on the IAASB’s Proposed Revised and Redrafted ISA 402, *Audit Considerations Relating to an Entity Using a Third Party Service Organization*.

Following extensive consultation with members of the PricewaterhouseCoopers network of firms, this response summarises the views of member firms who commented on this Exposure Draft. “PricewaterhouseCoopers” refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.

Overall comments

We support the proposed revised and redrafted ISA and, apart from the related comments below, are satisfied that the clarity drafting conventions have been appropriately applied. Subject to the suggested reordering of the requirements described below, we are also satisfied that the resulting ISA has been satisfactorily aligned with the risk assessment standards – ISA 315 and ISA 330.

We have responded to the request for specific comments below, and have also included other comments below and in a separate Appendix.

Application of the Clarity Drafting Conventions

- ***Appropriateness of the objective in the proposed ISA***

We consider that the objective in the proposed ISA is appropriate, but would identify the auditor referred to in the objective as the user auditor.

- ***Appropriateness of the ISA Requirements to meet that objective***

Alignment with ISA 315 and ISA 330

To better reflect the alignment of the proposed ISA 402 requirements with ISA 315 (understanding the entity, including internal control, and assessing risk) and ISA 330 (audit procedures responsive to assessed risk, and their sufficiency), we suggest the following reordering of current Requirements paragraphs:

- Paragraph 13, which focuses on internal control documentation/understanding, should be placed after paragraph 11.
- The heading above paragraph 12 should be changed to relate to audit evidence responsive to risk (ISA 330), rather than risk assessment, as this is actually the focus of paragraph 12 and the paragraphs that follow (if paragraph 13 is moved as suggested).
- Paragraphs 16 and 17 relate to reporting considerations, and are better placed at the end of the Requirements section.

Corresponding changes will be required in the structure of the related Application and Other Explanatory Material.

Request for Specific Comments

- ***Paragraph 4 of proposed ISA 402 (Revised and Redrafted) allows for the ISA to be adapted, as necessary in the circumstances, to situations where an entity uses a shared service centre which provides services to a group of related entities. In particular, the IAASB would welcome views as to whether:***
 - (a) The ISA is capable of being adapted for these circumstances; and***
 - (b) If there are additional opportunities within the Application and Other Explanatory Material where additional guidance relating to shared service centres could be added to enhance the ISA without duplicating material in other ISAs.***

We consider that the current brief general reference to shared service centres is appropriate. Although there are similarities between the external service organisation and internal shared service centre (SSC) situations, there is a much more direct relationship and contact between the user auditors/service auditor in the group SSC situation. The SSC audit considerations can be satisfactorily managed through the normal group audit planning process and communicated via group audit instructions. In our experience, SSC auditors will typically be requested to undertake specified documentation, evaluation and testing procedures in relation to SSC processes and controls, and possibly specific transactions/balances, on behalf of group and component auditors, rather than to produce formal Type A/B reports. We consider that any further guidance on SSC audits thought necessary would be better dealt with in ISA 600.

Other Comments

Paragraph A29 includes the following guidance:

“The service auditor may be practicing in a jurisdiction where different standards are followed in respect of reports on controls at a service organization. In such a situation, the user auditor may inquire about the adequacy of those standards.”

We consider, in such situations, there is a clear need for the user auditor to understand and evaluate the adequacy of the different control reporting standards that are being applied by the service auditor, and hence that this should be a Requirement in ISA 402. We provide proposed wording in the Appendix below.

We would be happy to discuss our views further with you. If you have any questions regarding this letter, please contact Roger Marshall (+44 20 7804 4866).

Yours faithfully,

PricewaterhouseCoopers

PROPOSED ISA 402

Paragraph	Comment on paragraph
Requirements	
8	<p>Definitions</p> <ul style="list-style-type: none"> ▪ In definitions (c) and (d), presumably the appropriate reference should be to, “those entities’ information systems relevant to financial reporting”, since, depending on the services provided and the nature of the various user entities, they are likely to have different overall information systems. ▪ In definitions (g) (i) Type A report and (h) (i) Type B report, it is not clear what is ‘the system’ that is being referred to – is it the information system relevant to user financial reporting, or the control system, including all elements – control environment, risk assessment, etc, not just control activities, or both, or is it some different reference?
11	<p>We consider that paragraph 11 contains two separate elements and hence should be split into two paragraphs, as shown below, to reinforce these two separate considerations. The first new paragraph builds on paragraph 10 in focusing on the sufficiency of the control information/evidence, including user monitoring controls, at the user entity that is relevant to the services performed by the service organisation. The second new paragraph then focuses on control information/evidence at the service organisation if there is a deficiency of control information/evidence available at the user entity.</p> <p><i>“The user auditor shall determine whether a sufficient understanding of the user entity’s internal control relevant to the audit has been obtained to provide a basis for the identification and assessment of risks of material misstatement.</i></p> <p><i>If the user auditor is unable to obtain that understanding from information on the service organization available at the user entity, the user auditor shall obtain audit evidence from one or more of the following procedures: (Ref: Para. A12-A16)</i></p> <p><i>(a) Obtaining a Type A or Type B report;</i></p> <p><i>(b) Contacting the service organization, through the user entity, to obtain specific information;</i></p> <p><i>(c) Requesting that a service auditor be engaged to perform procedures that will provide the necessary information; or</i></p> <p><i>(d) Visiting the service organization and performing such procedures.”</i></p>
Proposed 15A	<p>Further to the comment made in the ‘Other Comments’ section of our submission letter above regarding the use of different control reporting standards, we propose the following additional paragraph:</p> <p><i>“If the service auditor has conducted the engagement to report on controls at the service organisation in accordance with standards other than ISAE 3402, the user auditor shall understand and evaluate the adequacy of those standards for the purposes of providing audit evidence relevant to the user entity financial statement audit.”</i></p>
18	<p>Sub-section (b) should make it clear that the further audit procedures will need to be performed at the service organisation.</p>
Application and Other Explanatory Material	
A27	<p>The first sentence begins, “The service auditor’s assurance report...”, which appears somewhat of a contradiction in terms. The term is also used in A31.</p>
A28	<p>Second bullet – ‘complementary user <u>entity</u> controls’, as per the Definitions section.</p>
A29	<p>See comments above re proposed paragraph 15A.</p>
A31	<p>Since the user auditor takes full responsibility for the user auditor’s report and the opinion expressed therein, we do not understand why there should be any need to make reference to a service auditor when the user auditor’s report is based in part on a modified service auditor’s report, but not when the user auditor’s report is based in part on an unmodified service auditor’s report. The user auditor will</p>

	<p>need to describe the underlying facts and circumstances leading to the user auditor's modified report, but the reference to the service auditor's report appears irrelevant. It is the particular facts and circumstances, and the user auditor's response to them, which explain the reason for the user auditor's modified report.</p>
A33	<p>The opening clause, "In determining the nature and extent of audit evidence to be obtained in relation to balances representing assets held or transactions undertaken by a service organization," would be clearer if it was explicitly stated that the assets held or transactions undertaken by the service organisation were on behalf of the user entity.</p>