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**Basis for Conclusions:
ISA 402 (Revised and Redrafted),
Audit Considerations Relating to
an Entity Using a Service
Organization**

*Prepared by the Staff of the International Auditing and
Assurance Standards Board*



**International Federation
of Accountants**

BASIS FOR CONCLUSIONS:
ISA 402 (REVISED AND REDRAFTED),
AUDIT CONSIDERATIONS RELATING TO AN ENTITY USING A SERVICE
ORGANIZATION

This Basis for Conclusions has been prepared by staff of the International Auditing and Assurance Standards Board (IAASB). It relates to, but does not form part of, ISA 402 (Revised and Redrafted), “Audit Considerations Relating to an Entity Using a Service Organization,” which was approved by the IAASB in December 2008.¹

Background

1. The IAASB commenced the project to revise ISA 402² in March 2006. The project was initiated for a number of reasons. Since the ISA was last revised in 1994, the use of service organizations has advanced and the relationship between service organizations and entities has become more complex. Consequently, the standards and guidance for the auditor of an entity that uses a service organization needed to be updated, in particular those dealing with obtaining an understanding of internal control and the assessment of identified risks and, when the auditor intends to rely on a service auditor’s report, the entity auditor’s consideration of a service auditor’s competence, work and report. Several national auditing standard setters had recently updated their corresponding national standards in a number of respects and requested the IAASB do so as well. Finally, the IAASB was of the view that revisions to the ISA would enhance the consistency of auditor performance in an audit of financial statements through more specific requirements and expanded guidance, in particular when a user auditor intends to use a service auditor’s report.
2. At the same time, the IAASB agreed to commence a project to issue a new assurance standard addressing an assurance report on a service organization’s controls,³ which will complement this ISA insofar as service auditors’ reports prepared under the new assurance standard would be suitable for use under ISA 402 (Revised and Redrafted). Throughout the development of this ISA, concern was given to the need for the ISA and the new ISAE to be aligned. The IAASB anticipates finalizing the new ISAE in 2009. However, ISA 402 (Revised and Redrafted) does not preclude a user auditor from using a service auditor’s report that has been prepared under recognized national standards.
3. During the project, the IAASB considered the following matters: whether the proposed ISA was properly aligned with the requirements and guidance in the risk assessment standards; whether the proposed ISA should state that it could be adapted as necessary when an entity uses a shared service center; and whether the requirements for the user auditor when using a service auditor’s report were adequate.

¹ See minutes of the December 8-11, 2008 IAASB meeting at <http://www.ifac.org/IAASB/Meeting-BGPapers.php?MID=0166>.

² ISA 402, “Audit Considerations Relating to Entities Using Service Organizations.”

³ Proposed International Standard on Assurance Engagement (ISAE) 3402, “Assurance Reports on Controls at a Third-Party Service Organization.”

4. The IAASB has consulted widely on its proposals. Significant proposals were discussed with the IAASB Consultative Advisory Group (CAG) at various stages of developing the proposed ISA. The IFAC Small and Medium Practices Committee commented on various drafts of the proposed ISA.
5. In December 2007, the IAASB issued an exposure draft of proposed ISA 402 (Revised and Redrafted)⁴ (ED-ISA 402). The comment period for the exposure draft closed on March 31, 2008. The IAASB received forty-nine comment letters from a variety of respondents, including regulators and oversight authorities, IFAC member bodies, national auditing standard setters, audit firms and professional and public sector organizations. The IAASB made changes to ED-ISA 402 as a result of the comments received.
6. This Basis for Conclusions explains the more significant issues raised by respondents on ED-ISA 402, and how the IAASB has addressed them.

Objectives

7. ED-ISA 402 contained the following objective:

The objective of the auditor, when the user entity uses a service organization, is to obtain an understanding of the nature and significance of the services provided by the service organization and their effect on the user entity's internal control relevant to the audit sufficient to identify, assess and respond to the risks of material misstatement.

8. The majority of respondents supported the proposed objective. Those that did not support the objective felt it should be expanded to address the auditor's need to design and perform audit procedures responsive to the assessed risks of material misstatement, noting that, as drafted, it did not encompass the requirement in paragraph 18 of ED-ISA 402. Some of these respondents also suggested that the need to obtain sufficient appropriate audit evidence should be expressly stated in the objective. One respondent recommended the objective be limited to when the entity's use of a service organization is significant to the entity and relevant to the audit.

IAASB Decision

9. While the IAASB noted that the phrase "sufficient to identify, assess and respond to the risks of material misstatement" was intended to cover the auditor's procedures under both ISA 315 (Redrafted)⁵ and ISA 330 (Redrafted),⁶ it agreed that the objective should be changed to more closely link with the requirements for the auditor to design and perform audit procedures responsive to those risks. See paragraph 7 of ISA 402 (Revised and Redrafted).
10. The IAASB did not believe it was necessary that the objective be focused on the auditor's need to obtain sufficient appropriate audit evidence when a service organization is used, as

⁴ Proposed ISA 402 (Revised and Redrafted), "Audit Considerations Relating to an Entity Using a Third-Party Service Organization."

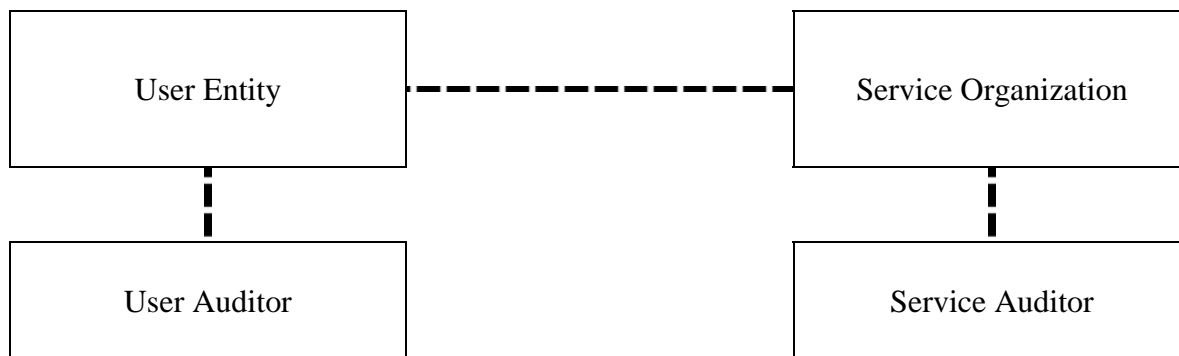
⁵ ISA 315 (Redrafted), "Identifying and Assessing the Risks of Material Misstatement through Understanding the Entity and Its Environment."

⁶ ISA 330 (Redrafted), "The Auditor's Responses to Assessed Risks."

the overarching requirement for the auditor to obtain sufficient appropriate audit evidence is addressed in ISA 200 (Revised and Redrafted).⁷

Definitions and Relationships

11. The IAASB discussed the definitions of user organization, service organization, user auditor, and service auditor, and the relationships between these parties. The ISA recognizes the following relationships, as is consistent with current practice:
- The *user entity* has a direct relationship with its auditor and with its service organization(s).
 - The *user auditor* has a direct relationship with the user entity whose financial statements it is auditing.
 - The *service organization* has a direct relationship with its customers (the user entities) and its own service auditor.
 - The *service auditor* has a direct relationship with the service organization, whose controls are the subject of an assurance report from the service auditor.
12. These relationships are depicted on the following chart.



13. In most jurisdictions, there is no direct relationship between the service auditor and user auditor. Communications between service auditors and user auditors are conducted through their respective clients who have entered into the servicing relationship. For example, it is common for service auditor reports to be distributed by service organizations to the user entities who in turn distribute the report to their user auditors, rather than being distributed from the service auditor directly to user auditors. Similarly, a user auditor’s questions, requests for additional information or other communications about a service auditor’s report are often communicated by the user auditor to the user entity who then communicates them to the service organization for communication to the service auditor.
14. In some jurisdictions, however, there may occasionally be a direct relationship between the user auditor and the service auditor if the user auditor directly contracts with a service auditor to perform specific work on behalf of the user auditor. This is the case particularly

⁷ ISA 200 (Revised and Redrafted), “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with International Standards on Auditing.”

in those situations where the role of the service organization is evolving from a transaction processing model towards a controllership model, and the level of communication and the relationship between user auditor and service auditor are changing, e.g., where specified substantive procedures are performed by the service auditor on behalf of the user auditor. As a result, ED-ISA 402 was structured in such a way to indicate that a user auditor may use a service auditor to perform procedures that will provide necessary information about the relevant controls at the service organization, test the controls at a service organization, or perform further substantive audit procedures at the service organization.

15. One respondent to ED-ISA 402 noted that the requirements of paragraphs 12 and 18 of ED-ISA 402 imply that the auditor may need to rely on work done by other auditors, potentially to a significant extent, depending on the range of services provided by the service organization. It was suggested that the requirements of ISA 402 (Revised and Redrafted) be aligned with those in ISA 600 (Revised and Redrafted).⁸

IAASB Decision

16. The relationships between the user auditor, user entity, service auditor and service organization are included in the Definitions, and also discussed in paragraph A9 of ISA 402 (Revised and Redrafted). Where reference is made to the user auditor contacting either the service auditor or the service organization, appropriate caveats have been given to indicate that this communication is done through the user entity.
17. In discussing the requirements as compared with the definition of a service auditor contained in ED-ISA 402 (“an auditor who provides an assurance report on the controls of a service organization”), the IAASB agreed that ED-ISA 402 was not clear on how the auditor would engage a service auditor to perform procedures on behalf of the user auditor, or how the service auditor’s work would be evaluated.
18. For example, when the user auditor is unable to obtain a sufficient understanding about the services provided by the service organization and their effect on the user entity’s internal control, one of the procedures included in paragraph 11 of ED-ISA 402 was to request that a service auditor be engaged to perform procedures that will provide the necessary information. If an assurance report on the controls of the service organization has not been issued, there will not be a service auditor by definition. Accordingly, the user auditor would actually be engaging another auditor to perform these procedures. Paragraph 18 of ED-ISA 402 contained a similar requirement in relation to the need to obtain sufficient appropriate audit evidence at the service organization.
19. To clarify the ISA, the IAASB agreed to revise the requirements to indicate that the user auditor may engage “another auditor” to perform procedures on behalf of the user auditor (see paragraphs 12(d), 15(b) and 16(c) of ISA 402 (Revised and Redrafted)). Additional application material was developed to explain that when a Type A or Type B report⁹ has

⁸ ISA 600 (Revised and Redrafted), “Special Considerations—Audits of Group Financial Statements (Including the Work of Component Auditors).”

⁹ In finalizing the ISA, the IAASB also agreed that it would be appropriate to change the terms used in the ISA from Type A and Type B reports to type 1 and type 2 reports, to be consistent with the definitions used in U.S.

been issued, the other auditor may in fact be a service auditor who is engaged by the user auditor to do additional work (see paragraph A19 of ISA 402 (Revised and Redrafted). References to paragraphs 2 and 19 of ISA 600 (Revised and Redrafted) were also included to refer the user auditor to relevant guidance about directing the work of another auditor and evaluating the results of procedures performed by the other auditor, including that auditor's independence and professional competence.

Requirements

Conforming with ISA 315 (Redrafted) and a Risk-Based Audit Model

20. The internal control of many entities has been affected by outsourcing, creating complex structures and resulting in possibly higher control risk in the process. Consequently, the auditor has to obtain an understanding of the outsourcing relationship, and of the service organization's effect on the internal control of the entity, and identify and assess related risks of material misstatement. An entity's internal control may be affected by weaknesses in, or failures of, controls at its service organization. Although extant ISA 402 provided guidance in this respect, the increased importance of the user entity/service organization and user auditor/service auditor relationships needed to be acknowledged and additional requirements and guidance developed to enhance existing practice and consistent application of the audit risk model.
21. ISA 402 (Revised and Redrafted) is aligned with the risk assessment standards, not by repeating the requirements in ISA 315 (Redrafted) and ISA 330 (Redrafted), but rather by expanding on them as appropriate when an entity uses one or more service organizations that perform services that are part of the entity's information system relevant to the audit. In particular, the ISA specifically requires a user auditor to understand the services of a service organization when they directly affect the user entity's internal control as it relates to the preparation of the financial statements – when those services, had they been performed “in house,” would have been covered by the auditor in applying ISA 315 (Redrafted) and ISA 330 (Redrafted).
22. The majority of respondents were of the view that the criteria identified by the IAASB for determining whether a requirement should be specified have been applied appropriately and consistency, such that the resulting requirements promote consistency in performance and reporting, and the use of professional judgement by auditors.
23. Some respondents, however, suggested that the ISA could be better aligned with the requirements of the risk assessment standards by a reordering of specific paragraphs and changes to headings within the document. One respondent in particular was of the view that new requirements needed to be added to pick up important material from the risk assessment standards, essentially mirroring the requirements in those standards and adapting them in the particular case when a user entity uses one or more service organizations. This respondent

Statement on Auditing Standards No. 70, “Service Organizations,” which is most widely used in practice as the basis for preparing a service auditor's report. For purposes of this document, the references to Type A and Type B reports have been maintained for ease of comparability with the exposure draft and IAASB agenda material.

believed that more requirements in particular were needed related to the application of ISA 330 (Redrafted) and suggested a number of drafting changes.

IAASB Decision

24. The structure of the requirements was revisited as a result of the respondents' comments, and the IAASB agreed that the changes proposed allow for a better flow of the document.
25. The IAASB reviewed the suggested new requirements proposed by the aforementioned respondent and concluded that, although these requirements more closely mirrored the risk assessment standards, the inclusion of the new requirements overcomplicated the ISA and detracted from the requirements that had been proposed in ED-ISA 402. The IAASB concluded, having reordered the requirements and added additional material to the Scope section, that the ISA adequately describes the auditor's responsibilities when a user entity uses a service organization.

Smaller Entities and the Perceived Emphasis of the ISA on the Use of Type A and Type B Reports

26. A number of respondents were concerned that the application of the ISA would be too difficult in the context of smaller entities or particular jurisdictions. One regulator specifically commented that "the standard over-emphasizes the need for a Type A or Type B report. The availability of a Type A or B report will depend on factors such as the jurisdiction's regulatory environment and/or the contractual arrangements with a client's service organization. These factors are beyond the user auditor's reach." This respondent also did not support the fact that the ISA sets on equal footing a range of possible procedures, and believes that this, combined with the over-emphasis on Type A and Type B reports, may impose significant burdens for user entities and service organizations, and generate higher costs than expected or necessary.
27. Another respondent was of the view that paragraphs 11 and 12 in ED-ISA 402 went beyond the objective and were unnecessary for smaller entities. Others suggested that more guidance should be added in the case of smaller entities when the entire accounting or finance function is outsourced.
28. A few respondents suggested the sub-bullets in paragraph 11 in ED-ISA should be reordered to (b), (d), (c), and (a). It was also suggested the order in paragraph 12 of ED-ISA 402 should place sub-bullet (a) after (c).

IAASB Decision

29. It was not the intent of the IAASB in revising the ISA to suggest that a Type A or Type B report was required whenever a service organization was used, recognizing, however, that extant ISA 402 dealt primarily with the auditor's use of such reports.
30. The order of the procedures the user auditor may choose from to gain an understanding of the service organization or test controls at the service organization, as presented in ED-ISA 402, reflected what most commonly occurs in practice; however, after some debate, the IAASB agreed to include the phrase "if available" in reference to Type A and Type B reports and

reorder the procedures. Additionally, related application and other explanatory material now indicates that it may not always be possible or practicable for a user auditor to obtain a Type A or Type B report. (See paragraphs 12 and 16 of ISA 402 (Revised and Redrafted), as well as related application and other explanatory material in paragraphs A15-A18).

31. The IAASB remains of the view that the user entity is responsible for having a system of internal control that enables it to prepare financial statements that are free from material misstatement, whether due to fraud or error. The fact that the user entity uses a service organization does not change this responsibility. It may be that the service organization provides a Type A or Type B report that the user entity can use to be satisfied as to the controls in place at the service organization, but if a Type A or Type B report is not available, then it would be expected that the user entity obtain information from the various sources noted in ISA 402 (Revised and Redrafted), including visit(s) to the service organization. From the user auditor's perspective, the fact that a Type A or Type B report is available assists the auditor in performing risk assessments. However, if a Type A or Type B report is not available, the user auditor then has to obtain information from other sources to perform the risk assessments.
32. The IAASB's consultations with the Small and Medium Practices Committee Rapid Response Teams supported the view that the level of the requirements specified in ISA 402 (Revised and Redrafted) was appropriate in an SME environment.

Requirement to Modify the Opinion in the Auditor's Report in Certain Circumstances

33. A few respondents to ED-ISA 402, principally regulators, were of the view that application and other explanatory material relating to the circumstances in which the user auditor would be required to modify the opinion in the auditor's report should be elevated to a requirement. Paragraph A16 of ED-ISA 402 stated:

If the user auditor is unable to obtain an understanding of the user entity's internal control relevant to the audit by performing the procedures required by paragraphs 9-11 of this ISA, the auditor is required to modify the opinion in the auditor's report.

IAASB Decision

34. While the IAASB believed in drafting ED-ISA 402 that including this in application and other explanatory material was appropriate given the reference to ISA 705 (Revised and Redrafted),¹⁰ the IAASB nonetheless agreed to elevate the matter to a requirement. However, it was the view of the IAASB that if the requirement for modification were to be elevated, it would be necessary for this requirement to be expanded, so as not to limit the need for modification to only the failure to *obtain an understanding of the user entity's internal control*. As a result, the new requirement now addresses the circumstance in which the user auditor is unable to obtain sufficient appropriate audit evidence regarding the services provided by the service organization relevant to the audit of the user entity's financial statements (see paragraph 20 of ISA 402 (Revised and Redrafted)). New application and other explanatory material

¹⁰ ISA 705 (Revised and Redrafted), "Modifications to the Opinion in the Independent Auditor's Report."

further explains the circumstances in which a modification to the auditor's opinion may be necessary (see paragraph A42 of ISA 402 (Revised and Redrafted)).

Evaluation of the Service Auditor and the Service Auditor's Work and Report

35. One IAASB CAG Representative believed further emphasis should be placed on the fact that a Type A or Type B report is not likely to constitute sufficient appropriate audit evidence on its own.
36. Some respondents also questioned whether the requirement for the user auditor "to be satisfied as to the service auditor's professional competence and independence" was sufficiently strong, in light of the fact that the auditor is required to evaluate the competence of an auditor's external expert in ISA 620 (Revised and Redrafted).¹¹

IAASB Decision

37. After some debate, the IAASB concluded it was not necessary to explicitly state that a Type A or Type B report is not likely to constitute sufficient appropriate audit evidence, as this is a matter for judgment by the auditor having applied the requirements of the ISA. Within the final ISA, the requirements relating to using a Type A or Type B report as audit evidence to support the user auditor's understanding about the design and implementation of controls at the service organization (paragraph 14) and using a Type B report as audit evidence that controls at the service organization are operating effectively (paragraph 17) state that the auditor shall perform specific additional procedures, rather than accepting solely a Type A or Type B report as audit evidence. These procedures include reviewing the time period covered by the reports, whether there are complementary user entity controls that must be in place for the service organization's controls to operate effectively and, in the case of a Type B report, evaluating the tests of controls described in the report to determine whether these provide sufficient appropriate audit evidence to support the user auditor's risk assessment.
38. Further, the related application and other explanatory material explains that a Type A or Type B report may assist the user auditor in obtaining a sufficient understanding of the service organization, and states that additional procedures may need to be performed to update information in a Type A or Type B report when the description of controls is as of a date or for a period that precedes the beginning of the period under audit. With respect to operating effectiveness of controls at the service organization, the nature, timing and extent of tests of controls are to be evaluated to determine whether the Type B report provides sufficient appropriate audit evidence. Finally, appropriate caveats are given that a Type B report may provide less audit evidence the shorter the period covered by the Type B report, and that additional evidence may also be necessary about significant changes to the relevant controls at the service organization outside of the period covered by the Type B report. Accordingly, the IAASB was of the view that further language was not necessary.

¹¹ ISA 620 (Revised and Redrafted), "Using the Work of an Auditor's Expert."

39. The IAASB gave further consideration to the requirement for the user auditor to be satisfied as to the service auditor's professional competence and independence from the service organization (see paragraph 13 of ISA 402 (Revised and Redrafted)). The IAASB believes the wording in the requirement is appropriate given that the user auditor's access to the service auditor is not the same as when an auditor is using the work of an auditor's expert and has direct access to such an expert. To impose a more stringent requirement on the user auditor might lead to extreme difficulty in practice.
40. In response to comments received, the IAASB also agreed to elevate to a requirement application material that addressed the adequacy of the standards under which the Type A or Type B report was issued. Finally, the IAASB concluded that it was also important to include a reference to competency and independence when another auditor is used, and has done so by linking this to the requirements and guidance in ISA 600 (Revised and Redrafted) (see paragraph A19).

Subservice Organizations

41. In response to comments raised by one respondent, additional application and other explanation material was initially added to explain the methods used by the service auditor in dealing with subservice organizations identified in Type A and Type B reports. This respondent was of the view that such additional guidance was necessary, in part because of the increasing use of subservice organizations and the fact that, if a user auditor is not alert to whether the services of a subservice organization are included or excluded in a Type B report, the user auditor may place undue reliance on the Type B report when in fact it is necessary to apply the requirements of the ISA to the subservice organization.

IAASB Decision

42. After further debate, the IAASB agreed that it should be more prominent within the ISA that, if a subservice organization is used and the services of this subservice organization are not covered in the Type B report received from the service organization, further work will need to be done to obtain sufficient appropriate audit evidence. As such, a new requirement was included in ISA 402 (Revised and Redrafted) (see paragraph 18). The IAASB believes the requirement appropriately limits the user auditor's further work to subservice organizations *whose services are relevant to the audit of the user entity's financial statements* and requires the user auditor to apply the requirements of the ISA in such circumstances.

Shared Service Centers

43. The Explanatory Memorandum to ED-ISA 402 explained that, in some cases, a shared service center that provides services "internally" to a group of related companies may be considered a service organization from the perspective of the auditor of a component of the group. While the focus of ED-ISA 402 was on an entity's use of a third-party service organization, paragraph 4 stated that the ISA "may also be applicable, adapted as necessary in the circumstances, to situations where an entity uses a shared service center which provides services to a group of related entities." Respondents were asked for their views as to whether the ISA is capable of being adapted for these circumstances and whether additional

guidance relating to shared service centers could be added to enhance the ISA without duplicating material in other ISAs.

44. The majority of those who responded suggested the ISA could be adapted. Many did not believe it was necessary for additional guidance to be added, nor did they propose any specific wording. However, a greater number of those respondents were of the view that the ISA could be adapted but only if further reference material and guidance were developed, in particular discussing how the requirements of this ISA would interact with ISA 600 (Revised and Redrafted) in a shared service center situation.
45. A few respondents did not believe the ISA could be adapted, because any such suggestion could be misinterpreted to mean that ISA 402 (Revised and Redrafted) would apply rather than ISA 600 (Revised and Redrafted) in a group situation.
46. One respondent specifically noted that the use of shared service centers by large groups is expanding and suggested that there is a need for a specific standard or practice statement that addresses the unique circumstances that apply to the use of an intra-group financial shared service center and urged the IAASB to consider undertaking a project to develop specific guidance in this area.
47. Regarding the link to ISA 600 (Revised and Redrafted):
 - Regulators suggested guidance could be developed about identifying where audit work related to the use of a shared service center that has been carried out on one group component may be used as assurance across the whole group, as well as guidance about the need to consider intra-group entity control mechanisms.
 - One respondent, while acknowledging that further guidance could be included in ISA 600 (Revised and Redrafted), suggested this ISA could be expanded to further focus on compliance with local laws and regulation in terms of bookkeeping, access to workpapers held by the auditor of the shared service center, materiality and the additional procedures to be carried out by the user auditor to report on a statutory audit. Another respondent suggested that the relationships between the various auditors (i.e., the shared service center auditor, the group auditor, and the component auditor – in both their capacity as component auditors for the group and statutory auditors of the component) are different from that envisaged in ISA 402 (Revised and Redrafted).
 - Another suggested that further guidance could be added to note that it may not be appropriate for the group engagement team to use a Type A or Type B report as the sole source of information in obtaining an understanding of relevant controls. This respondent also suggested the words “third party” would then need to be deleted from the definition of a service organization.
 - One respondent suggested a separate Appendix be added to expand upon shared service centers, in particular the communications needed between the group auditor and the component auditor(s) as it relates to testing of controls and substantive work done at the shared service center.

IAASB Decision

48. In developing ED-ISA 402, the majority of the IAASB believed that it was important that the proposed ISA make reference to shared service centers in light of their increasing use in practice. However, given that in many cases a shared service center is used in the context of a group audit, a point raised by a number of respondents, the IAASB was also of the view that the ISA should not be seen to override the authority of ISA 600 (Revised and Redrafted). The IAASB has acknowledged in its debates that the audit considerations that impact a statutory auditor when a shared service center is used in a group audit context are not currently addressed in the ISAs.
49. As a result of the comments received, the IAASB agreed it would be necessary to revise the material in paragraph 4 of ED-ISA 402 to explain the context in which the ISA could be adapted if such material were to be retained. The IAASB explored a number of revisions to the wording in paragraph 4 of ED-ISA 402, aimed at more accurately describing the common situations in practice.
50. In many cases, the user auditor has a statutory reporting responsibility. In fulfilling this responsibility, the user auditor needs to obtain an understanding about the services provided by the shared service center (e.g., a related service organization) in order to identify and assess the risks of material misstatement, and needs to design and perform audit procedures responsive to those risks. While the IAASB acknowledged that in many cases, a Type A or Type B report is unlikely to be available for a shared service center, the IAASB was of the view that the provisions of ISA 402 (Revised and Redrafted) would have allowed for the user auditor (a statutory auditor) to engage the component auditor who has audited the group's shared service center to perform procedures on the user auditor's behalf.
51. Many IAASB members believed that such clarification and limitation as to when the ISA can be adapted effectively negate the concern that a user auditor in a group audit context could choose to adapt the requirements and guidance in ISA 402 (Revised and Redrafted), rather than applying ISA 600 (Revised and Redrafted).
52. Other IAASB members were of the view that the inclusion of a single paragraph to address a complex situation (as evidenced by the divergent views of the respondents to ED-ISA 402) was likely to result in more divergence in practice and was not seen to be useful. For example, some IAASB members thought that the reference to statutory audits only was too limiting. There was also a concern, raised by both the IAASB and the IAASB CAG, that any reference to the ISA's applicability to shared service centers may promote the ISA as being more useful than it actually will be in practice, since there are many other issues specific to shared service centers that are not specifically addressed in the ISA.
53. Further, in debating whether a reference to shared service centers was appropriate, the IAASB considered whether an Appendix that specifically addressed the issues faced by auditors dealing with shared service centers should be included in the ISA. Views on the usefulness of the Appendix were split between those who thought that it was too lengthy and those who thought that it was not detailed enough. At that time, the IAASB acknowledged that, in most cases, ISA 600 (Revised and Redrafted) would apply; however,

the circumstances surrounding the statutory audit, in particular when the statutory auditor has limited contact with the shared service auditor, continued to be a challenge.

54. As a result of the deliberations and mixed views on the content of any reference to shared service centers, the IAASB agreed that the paragraph relating to the applicability of the ISA to shared service centers should be deleted. It was suggested that this matter could be a topic for a separate project in the future.

Other Matters

Appendix Included in ED-ISA 402

55. In developing ED-ISA 402, the IAASB acknowledged that there are many different types of service organizations used today, whose services span a number of dimensions. An Appendix was included in ED-ISA 402 to provide examples of service organizations which perform services that are part of the user entity's information system relevant to financial reporting (i.e., within the scope of ED-ISA 402). Some respondents, as well as a Representative on the IAASB CAG, were of the view that the Appendix was difficult to translate and suggested more generic or global terms be used if the Appendix were to be retained. After some debate, the IAASB agreed that the Appendix should be deleted, as it would be difficult to find more generic terms and that any such terms could become obsolete in the changing environment.

Pricing Services

56. It was suggested that further guidance be added to discuss whether a pricing service would meet the definition of a service organization, or whether a pricing service was more comparable to an expert. The IAASB considered whether further guidance on pricing services should be included in this ISA. After some debate and consultation with practitioners in financial services, it was agreed that no reference should be added. To conclude in the ISA whether a pricing service is or is not a service organization would remove the important aspect of the auditor's judgment in determining how a pricing service affects the audit of the financial statements of a user entity.

Conforming Amendments to Other ISAs

57. One respondent suggested that ISA 315 (Redrafted) and ISA 330 (Redrafted) contain little guidance on service organizations and the relationship between the risk assessment considerations applicable to service organizations and ISA 402 (Revised and Redrafted) could be improved by conforming amendments to ISA 315 (Redrafted) and ISA 330 (Redrafted).
58. Paragraph A57 of ISA 315 (Redrafted) states:

Factors relevant to the auditor's judgment about whether a control, individually or in combination with others, is relevant to the audit may include such matters as the following:

- ...
- The nature and complexity of the systems that are part of the entity's internal control, including the use of a service organization.

BASIS FOR CONCLUSIONS:
ISA 402 (REVISED AND REDRAFTED)

59. Service organizations are not referenced in ISA 330 (Redrafted). The IAASB did not believe it was necessary to include conforming amendments to ISA 315 (Redrafted) or ISA 330 (Redrafted) given the language included in ISA 315 (Redrafted).