

May 20, 2008

Mr. James Sylph  
Executive Director, Professional Standards, IAASB  
International Federation of Accountants  
545 Fifth Avenue, 14th Floor  
New York, NY 10017

**Re: Exposure Draft: Proposed Revised and Redrafted International Standard on Auditing 402, “Audit Considerations Relating to an Entity Using a Third Party Service Organization”**

Dear Mr. Sylph:

The American Institute of Certified Public Accountants (AICPA) is pleased to comment on the above referenced exposure draft. We commend the International Auditing and Assurance Standards Board (IAASB) on its proposed International Standard on Auditing (ISA) 402, which would establish requirements and provide guidance to auditors on obtaining information about controls at a service organization that affect user entities’ information systems. The proposed ISA also would align ISA 402 with the risk assessment standards. The ASB supports the issuance of the ISA and believes that the objectives and requirements in the standard are appropriate. We also offer the following suggestions for your consideration:

**1. Clarification of applicability**

Paragraph 5 of ISA 402 discusses the applicability of the ISA. To clarify why the ISA is not applicable to certain service organization/user entity relationships, we suggest that the following additional language be added to paragraph 5:

**5.** This ISA does not apply to services ~~provided by an organization, such as a financial institution,~~ that are limited to processing an entity’s transactions that are specifically authorized by the entity, such as the processing of checking account transactions by a bank or the processing of securities transactions by a broker. In **these situations, the user organization retains responsibility for authorizing the transactions and maintaining the related accountability.** In addition, this ISA does not apply to the audit of transactions arising from proprietary financial interests in other entities such as partnerships, corporations and joint ventures, when proprietary interests are accounted for and reported to interest holders.

## 2. Using an assurance report from a service auditor

We suggest that revisions be made to paragraph 14 to:

- Explain why a user auditor needs to perform the procedures in paragraph 14.
- Emphasize that a user auditor using a Type B report needs to perform the procedures in paragraph 13, in addition to the procedures in paragraph 14.
- Indicate that in a Type B report the description of controls is for a period rather than at a date.
- Clarify that that the tests of controls performed by the service auditor and results thereof are those described in the Type B report.

Following is a revision of paragraph 14 that incorporates these recommendations:

**14. A Type B report may be intended to satisfy the needs of several different user auditors; therefore, specific tests of controls and results thereof in the service auditor's description of tests of controls may not be relevant to assertions that are significant to a particular user entity's financial statements.** If the user auditor plans to use **information in** a Type B report as audit evidence that controls at the service organization are operating effectively, the user auditor shall **perform the following procedures, in addition to the procedures in paragraph 13, to determine whether the service auditor's report provides sufficient appropriate audit evidence about the effectiveness of the controls to support the user auditor's risk assessment.** (Ref Para: A20-A27)

- a. Evaluate whether the description of controls at the service organization is **for a period** ~~at a date~~ that is appropriate for the user auditor's purposes;
- ~~b. Evaluate the sufficiency and appropriateness of the evidence provided about the effectiveness of controls for the relevant assertions;~~
- bc.** Determine whether complementary user entity controls identified by the service organization are relevant to the user entity and if so, obtain an understanding of whether the user entity has designed and implemented such controls and, if so, test their operating effectiveness;

- cd. Evaluate the adequacy of the time period covered by the tests of controls and the time elapsed since the performance of the tests of controls; and
- de. Evaluate **whether** the specific tests of controls performed by the service auditor and the results thereof, **as described in the Type B report, are relevant to these assertions in the user entity's financial statements** ~~to determine if sufficient appropriate audit evidence has been obtained about the operating effectiveness of the controls to support the user auditor's risk assessment.~~

### 3. Independence

To clarify the issue of independence in a service auditor's engagement, we recommend that a paragraph be inserted after paragraph A29 indicating that a service auditor need not be independent of each user entity.

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Thank you for the opportunity to comment on this exposure draft. If you have any questions regarding the comments in this letter, please contact Judith Sherinsky at +1-212-596-6031, [jsherinsky@aicpa.org](mailto:jsherinsky@aicpa.org).

Respectfully submitted,



/s/ Harold Monk, Jr.  
Chair, Auditing Standards Board