

**Audit  
Considerations Relating to  
Entities using Service  
Organisations**

The "Addendum 2 to SSA 6" was issued by the Council of the Institute of Certified Public Accountants of Singapore in June 1997.

Auditors are required to comply with the auditing standards contained in this SSA in respect of audits of financial statements for periods beginning on or after 1 January 1998.

SSA 402 supersedes Addendum 2 to SSA 6 of the same title in June 2004. No substantive changes have been made to the original approved text and all cross references have been updated, as appropriate.

This revised SSA 402 supersedes the SSA of the same title in June 2005.

The Audit Risk Standards, comprising SSA 315 "Understanding the Entity and Its Environment and Assessing the Risks of Material Misstatement", SSA 330 "The Auditor's Procedures in Response to Assessed Risks" and SSA 500 (Revised) "Audit Evidence" gave rise to conforming amendments in this SSA. These amendments are effective for audits of financial statements for periods beginning on or after 15 December 2004.

Singapore Standards on Auditing (SSAs) are to be applied in the audit of financial statements. SSAs are also to be applied, adapted as necessary, to the audit of other information and to related services.

SSAs contain the basic principles and essential procedures (identified in bold type black lettering) together with related guidance in the form of explanatory and other material. The basic principles and essential procedures are to be interpreted in the context of the explanatory and other material that provide guidance for their application.

To understand and apply the basic principles and essential procedures together with the related guidance, it is necessary to consider the whole text of the SSA including explanatory and other material contained in the SSA not just that text which is black lettered.

In exceptional circumstances, an auditor may judge it necessary to depart from an SSA in order to more effectively achieve the objective of an audit. When such a situation arises, the auditor should be prepared to justify the departure.

SSAs need only be applied to material matters.

The Public Sector Perspective (PSP) issued is set out at the end of an SSA. Where no PSP is added, the SSA is applicable in all material respects to the public sector.

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## **Audit Considerations Relating to Entities using Service Organisations**

### **Introduction**

1. The purpose of this Singapore Standard on Auditing (SSA) is to establish standards and provide guidance to an auditor where the entity uses a service organisation. This SSA also describes the service organisation auditor's reports which may be obtained by the entity's auditors.
2. **The auditor should consider how an entity's use of a service organisation affects the entity's internal control so as to identify and assess the risk of material misstatement and to design and perform further audit procedures.**
3. A client may use a service organisation such as one that executes transactions and maintains related accountability or records transactions and processes related data (e.g., a computer systems service organisation). If the entity uses a service organisation, certain policies, procedures and records maintained by the service organisation may be relevant to the audit of the financial statements of the client.

### **Considerations of the Auditor**

4. A service organisation may establish and execute policies and procedures that affect the entity's internal control. These policies and procedures are physically and operationally separate from the entity. When the services provided by the service organisation are limited to recording and processing the entity's transactions and the entity retains authorisation and maintenance of accountability, the entity may be able to implement effective policies and procedures within its organisation. When the service organisation executes the entity's transactions and maintains accountability, the entity may deem it necessary to rely on policies and procedures at the service organisation.
5. **In obtaining an understanding of the entity and its environment, the auditor should determine the significance of service organisation activities to the entity and the relevance to the audit.** In doing so, the auditor obtains an understanding of the following, as appropriate:
  - Nature of the services provided by the service organisation.
  - Terms of contract and relationship between the entity and the service organisation.
  - Extent to which the entity's internal control interact with the systems at the service organisation.
  - The entity's internal control relevant to the service organization activities such as :
    - Those that are applied to the transactions processed by the service organization.
    - How the entity identifies and manages risks related to use of the service organization.
  - Service organisation's capability and financial strength, including the possible effect of the failure of the service organisation on the entity.
  - Information about the service organisation such as that reflected in user and technical manuals.
  - Information available on controls relevant to the service organization's information systems such as general IT controls and application controls.

6. **The auditor would also consider the existence of third-party reports from service organisation auditors, internal auditors, or regulatory agencies as a means of obtaining information about the internal control of the service organisation and about its operation and effectiveness. When the auditor intends to use work of the internal auditor, ISA 610, “Considering the Work of Internal Auditing” provides guidance on evaluating the adequacy of the internal auditor’s work for the auditor’s purposes.**
- 6a. The understanding obtained may lead the auditor to decide that the control risk assessment of the risk of material misstatement will not be affected by controls at the service organization; if so, further consideration of this ISA is unnecessary.
7. **If the auditor concludes that the activities of the service organisation are significant to the entity and relevant to the audit, the auditor should obtain a sufficient understanding of the entity and its environment, including its internal control, to identify and assess the risks of material misstatement and design further audit procedures in response to the assessed risk. The auditor assesses the risk of material misstatement at the financial statement level and at the assertion level for classes of transactions, account balances and disclosures.**
8. If the understanding obtained is insufficient, the auditor would consider the need to request the service organisation to have its auditor perform such risk assessment procedures to supply the necessary information, or the need to visit the service organisation to obtain the information. An auditor wishing to visit a service organisation may advise the entity to request the service organisation to give the auditor access to the necessary information.
9. The auditor may be able to obtain a sufficient understanding of internal control affected by the service organisation by reading the third-party report of the service organisation auditor. In addition, when assessing the risks of material misstatement, for assertions affected by the service organization’s internal controls, the auditor may also use the service organisation auditor’s report. **If the auditor uses the report of a service organisation auditor, the auditor should consider making inquiries concerning that auditor’s professional competence in the context of the specific assignment undertaken by the service organisation auditor.**
10. The auditor obtains audit evidence about the operating effectiveness of controls when the auditor’s risk assessment includes an expectation of the operating effectiveness of the service organization’s controls or when substantive procedures alone do not provide sufficient appropriate audit evidence at the assertion level. The auditor may also conclude that it would be efficient to obtain audit evidence from tests of controls. Audit evidence about the operating effectiveness of controls may be obtained by the following:
- Performing test of the entity’s controls over activities of the service organisation.
  - Obtaining a service organisation auditor’s report that expresses an opinion as to the operating effectiveness of the service organisation’s internal control for the service organization activities relevant to the audit.
  - Visiting the service organisation and performing tests of control.

### **Service Organisation Auditor’s Reports**

11. **When using a service organisation auditor’s report, the auditor should consider the nature of and content of that report.**
12. The report of the service organisation auditor will ordinarily be one of two types as follows:  
*Type A – Report on the Design and Implementation of Internal Control*
- (a) A description of the service organisation’s internal control, ordinarily prepared by the management of the service organisation; and
- (b) An opinion by the service organisation auditor that:
- (i) The above description is accurate;
  - (ii) The internal control is suitably designed to achieve their stated objectives; and

- (iii) The internal controls have been implemented.

*Type B – Report on the Design, Implementation and Operating Effectiveness of Internal Control*

- (a) A description of the service organisation's internal control, ordinarily prepared by the management of the service organisation; and
- (b) An opinion by the service organisation auditor that:
  - (i) The above description is accurate;
  - (ii) The internal controls is suitably designed to achieve their stated objectives;
  - (iii) The internal controls have been implemented; and
  - (iv) The internal controls are operating effectively based on the results from the tests of controls. In addition to the opinion on operating effectiveness, the service organisation auditor would identify the tests of control performed and related results.

The report of the service organisation auditor will ordinarily contain restrictions as to use (generally to management, the service organisation and its customers, and the entity's auditors).

13. **The auditor should consider the scope of work performed by the service organisation auditor and should evaluate the usefulness and appropriateness of reports issued by the service organisation auditor.**
14. While Type A reports may be useful to the auditor in obtaining an understanding of the internal control, an auditor would not use such reports as audit evidence about the operating effectiveness of controls.
15. In contrast Type B reports may provide such audit evidence since tests of control have been performed. When a Type B report is to be used as audit evidence about operating effectiveness of controls, the auditor would consider whether the controls tested by the service organisation auditor are relevant to the entity's transactions, account balances, and disclosures, and related assertions, and whether the service organisation auditor's tests of control and the results are adequate. With respect to the latter, two key considerations are the length of the period covered by the service organisation auditor's tests and the time since the performance of those tests.
16. **For those specific tests of control and results that are relevant, the auditor should consider whether the nature, timing and extent of such tests provide sufficient appropriate audit evidence about the operating effectiveness of the internal control to support the auditor's assessed risks of material misstatement.**
17. The auditor of a service organisation may be engaged to perform substantive procedures that are of use to the entity's auditor. Such engagements may involve the performance of procedures agreed upon by the entity and its auditor and by the service organisation and its auditor.
18. **When the auditor uses a report from the auditor of a service organisation, no reference should be made in the entity's auditor's report to the auditor's report on the service organisation.**