

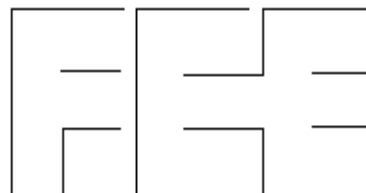
Date
30 April 2008

Le Président

Fédération
des Experts
Comptables
Européens
AISBL

Avenue d'Auderghem 22-28
1040 Bruxelles
Tél. 32 (0) 2 285 40 85
Fax: 32 (0) 2 231 11 12
E-mail: secretariat@fee.be

Mr. Jim Sylph
Executive Director Professional Standards
International Auditing and Assurance Standards Board
(IAASB)
545 Fifth Avenue, 14th Floor
New York, New York 10017
USA



Edcomments@ifac.org

Dear Mr. Sylph,

Re: Exposure Draft – Proposed Revised and Redrafted ISA 402 on Audit Considerations Relating to an Entity Using a Third Party Service Organization

As the representative organisation of the European accountancy profession, FEE is pleased to comment on the Exposure Draft – Proposed International Standard on Auditing (ISA) 402 (Revised and Redrafted) on Audit Considerations Relating to an Entity Using a Third Party Service Organization (Proposed ISA 402).

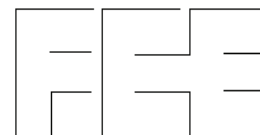
Our significant concerns about the scope of Proposed ISA 402 are set out below as Main Comments. We expand on these comments in our remarks on the Introduction: Scope paragraphs. Our other comments which follow would, we believe, further enhance the standard.

Main Comments

Shared service centres

Proposed ISA 402 has been drafted in the context of third party service organizations. Paragraph 4 states that Proposed ISA 402 'may also be applicable, adapted as necessary in the circumstances, to situations where an entity uses a shared service centre that provides services to a group of related entities'. ISA 600 always applies in those situations when shared service centres are components of the group as defined in ISA 600. However, there may be circumstances when Proposed ISA 402 may also apply. FEE believes that paragraph 4 of Proposed ISA 402, as drafted, is likely to cause confusion as it implies that an auditor may choose to apply or not apply this ISA in respect of shared service centres encountered during group audits.

Based on a review of the requirements, FEE believes that a group auditor would perform the procedures required by paragraphs 9 to 12 in respect of shared service centres in complying with ISAs 315 and 330 anyway, as these paragraphs essentially give more detail as to how the requirements in ISA 600 can be fulfilled. The conditional requirements of paragraphs 13 to 17 would, however, only apply when a Type A or Type B assurance report is used, and since there are multiple possible configurations for the operation of shared service centres a Type A or Type B assurance report may not be relevant in all



circumstances. When dealing with a third party service provider the auditor generally has far more limited access rights than is the case for shared service centres. The requirement of paragraph 18 is also covered by ISA 600.

FEE therefore supports the IAASB extending and adapting Proposed ISA 402 to cover also in-house shared service centres. The Appendix to this letter includes our additional wording suggestions.

However, if the Objective, Requirements and Application and Other Explanatory Material of Proposed ISA 402 are not amended to include material to make the standard applicable for shared service centres, FEE is of the opinion that paragraph 4 should be deleted. A separate standard on shared service centres should then be issued by IAASB in due course.

Other Comments

Introduction and Scope of this ISA

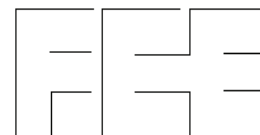
Outsourcing currently encountered in practice versus Proposed ISA 402

Paragraph 2 is important in that it describes the broad spectrum of service possibilities ranging from simple outsourcing of a specific task under the direction of the entity on the one hand to replacing an entity's entire business unit on the other. We are concerned that this standard responds to the first case but does not constitute an appropriate response to the latter case, because it oversimplifies the issue of outsourcing other than that of specific simple tasks. When for example an entity's entire business unit is outsourced there are many parallels to ISA 600, however this does not come across in Proposed ISA 402 adequately. For example, it needs to be even clearer that a type A report can only serve as a basis for the auditor's own risk assessment procedures and that the auditor cannot "blindly trust" a standardized report prepared by the auditor of the service entity. This should be addressed within the Application and Other Explanatory Material.

The reference to substantive procedures performed by the service auditor at the request of the user auditor is insufficient (paragraph 18(b)) to get across the message that standardized audit programs and reports alone are not optimal in many cases. For example, whilst we appreciate that paragraph 18 refers to ISA 330, we believe that there is a danger that Proposed ISA 402 as drafted may give the overall impression that reliance on a service auditor's work for a type B report may suffice in some cases. This may be contrary to ISA 330 paragraph 20: "Irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance, and disclosure." This issue needs to be more prominent.

Treatment of the impact of outsourcing on an entity's internal control

An entity's information system relevant to financial reporting is only one part of the internal control system over financial reporting (i.e., there are additional aspects of a system such as high level controls, e.g., tone at the top, that are also relevant to any consideration of internal control as a whole). We believe the references throughout Proposed ISA 402 to outsourced services impacting on only the information system relevant to financial reporting are misleading because they refer to the services provided by a service organization as only part of an entity's information system relevant to financial reporting; rather such services affect the entity's internal control over financial reporting in total, since the services can also affect the control environment, the entity's own risk assessment, the design of the entity's further control activities and also its monitoring of internal control over financial reporting. In this context, the list in paragraph 3 needs to be expanded, otherwise there is a risk that a weakness in internal control that is not classified as within the "entity's



information system relevant to financial reporting” may have an impact on financial reporting but not be covered by this ISA.

In the context of our comments on outsourcing currently encountered in practice versus Proposed ISA 402 above, the objective correctly refers to the user entity’s internal control relevant to the audit. However, the wording of paragraphs 2, 3 and the definitions in 8(c) and (d) are not in line with the objective, whereas we note that paragraph 13 (b) and application material (e.g. A3) are in line. Consistency throughout Proposed ISA 402 is needed and the phrase “that are part of those (user) entities’ information system relevant to financial reporting” ought to be replaced with “affect the entities’ internal control over financial reporting”.

Requirements

Paragraphs 9 to 11

FEE considers that there may be situations where an auditor cannot apply subparagraphs (a), (b) and (c) of paragraph 11 and is therefore unable to draw a definitive conclusion. FEE refers to paragraph A16, which refers to a modification of the auditor’s opinion as indicated in ISA 705. FEE recommends that paragraph A16 is elevated to a requirement, which could be placed after paragraphs 9 to 11. The reference to ISA 705 could then be put into a footnote within the requirements section of Proposed ISA 402.

FEE proposes paragraph 11 is re-ordered as (b), (d), (c), (a).

Reference is made to the Appendix hereafter for additional wording.

Paragraph 10

FEE recommends inserting the word ‘of’ in “relevant monitoring of controls”.

Paragraph 12

Paragraph 12 needs to be brought in line with paragraph 8 of ISA 330 (Redrafted), according to which the auditor is always required to obtain audit evidence on the operating effectiveness of controls over risks for which substantive procedures alone do not provide sufficient appropriate audit evidence, even when the auditor’s risk assessment does not include an expectation that the controls are operating effectively.

FEE proposes that paragraph 12 be reversed with 'obtaining a Type B report' being the last option. In addition, paragraphs 18 and 19 should come before paragraph 13.

Reference is made to the Appendix hereafter for additional wording.

Paragraph 15

Paragraph 15 requires the user auditor to be satisfied as to the service auditor’s professional reputation, competence and independence. This contrasts with paragraph 19 of ISA 600 (Revised and Redrafted), and [Proposed] ISA 620, paragraph 9 (Revised and Redrafted), neither of which refer to professional reputation. FEE does not see why this aspect should be different for service auditors and suggests uniform terminology be used.

Application and Other Explanatory Material

Paragraphs A17, A26 and A33

Paragraphs A17, A26 and A33 all envisage circumstances where the user auditor visits the service organization. FEE requests the IAASB to consider whether there should be a generic paragraph addressing circumstances where that visit is not practicable.

Responses to Questions

Views on the adaptability of Proposed ISA 402 when shared service centres are used

Reference is made to our main comments on shared service centres. We are concerned that without change the Proposed ISA will be confusing.

Is the objective to be achieved by the auditor, stated in the Proposed redrafted ISA, appropriate?

In the context of an entity's use of a third party service organisation we consider that the objective is satisfactory. However, we refer to our comments above on the scope of the Proposed ISA. If the scope is expanded in line with our main recommendation, consideration will need to be given by IAASB to whether the objective requires adjustment.

Have the criteria identified by the IAASB for determining whether a requirement should be specified been appropriately and consistently, such that the resulting requirements promote consistency in performance and reporting, and the use of professional judgment by auditors?

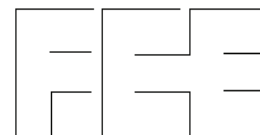
We refer to our comments above on paragraphs 9 to 11, 10, 12, 15 and 18.

If you have any further questions about our views on these matters, please do not hesitate to contact us.

Yours sincerely,



Jacques Potdevin
President



Appendix

Shared service centres

The requirements of ISA 600 apply to shared service centres that are components as defined by ISA 600. Shared service centres may operate under terms similar to those commonly agreed between user entities and third party service organizations such that Proposed ISA 402 applies in fulfilling the requirements of ISA 600. For example, in some circumstances the group may not control the component representing the shared service centre. Nevertheless, the group auditor and group engagement team are likely to have more extensive access rights to information. In addition group engagement teams may need to consider additional factors, for example, that relationships between entities within the group may be such that there is a potential for management override of controls that would not exist when services are provided by a third party service organization. In some cases, the terms of the service agreement may be dissimilar such that not all the requirements of Proposed ISA 402 would be relevant. For example, the group engagement team may not plan to use a Type A or Type B report or such reports may not be prepared. In some circumstances a group may not have control over the entity operating a shared service centre (e.g., equity interest), such that Proposed ISA 402 would be relevant.

Suggested additional guidance:

Guidance to paragraph 11

In complying with the requirement of ISA 600, paragraph 18(b) the group engagement team would perform one or more of the procedures listed in paragraph 11 of Proposed ISA 402. In such cases, whether the group engagement team will use a Type A or Type B assurance report or not will depend on the individual engagement circumstances and the auditor's professional judgment in the circumstances of the audit. In a group with shared services however, it may not be appropriate for the group engagement team to use a Type A or Type B assurance report as the sole source of information in obtaining an understanding of relevant controls, since additional factors and controls may need to be taken into account.

Guidance to paragraph 12

In complying with the requirement of ISA 600 paragraph 25 the group engagement team would perform one or more of the procedures listed in paragraph 12 of Proposed ISA 402. In such cases, whether the group engagement team may use a Type A or Type B assurance report or not will depend on the individual engagement circumstances and the auditor's professional judgment in the circumstances of the audit. In a group with shared services however, it may not be appropriate for the group engagement team to use a Type B assurance report as the sole source of information in obtaining audit evidence about the operating effectiveness of relevant controls, since additional factors and controls may need to be taken into account.

Further Amendments

Paragraph 4: This paragraph should clearly state that ISA 600 is relevant to shared service centres that are operated by an entity which is part of the group, and that when relevant parts of Proposed ISA 402 also applies.

Paragraph 8: Specifically, the words "third party" would need to be deleted from the definition of service organization, and other paragraphs would need to be amended to explain when this standard is applicable and how it could be applied.

Paragraph A6 could explain that a service auditor could also be a component auditor as defined in ISA 600