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INSIGHTS

AUDIT & ASSURANCE

ISA 402 audits of service organisations in Cambodia

How a Cambodian auditor applies ISA 402 when a client outsources accounting, payroll or cloud services: user entity controls, service auditor reports, carve-out vs inclusive methods and alternative evidence.



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HOW DOES ISA 402 APPLY WHEN A CAMBODIAN COMPANY OUTSOURCES ACCOUNTING, PAYROLL OR CLOUD SERVICES?

ISA 402 applies when a user entity uses a service organisation and the services affect the user entity's financial statements; the auditor obtains an understanding of the services, the significance to the audit, the service organisation's controls and the user entity's controls over those services. The auditor may use a service auditor's report (a Type 1 report on the suitability of design or a Type 2 report on design and operating effectiveness), perform procedures at the service organisation with permission, or use other evidence. In Cambodia, outsourced bookkeeping, payroll bureaus and cloud accounting are common, and many service organisations do not have a SOC report, so the auditor often relies on contracts, access controls, reconciliations and exception reports.

IN SHORT

- ISA 402 applies when a service organisation's services affect the user entity's financial statements and are relevant to the audit.
- The auditor obtains an understanding of the services, the service organisation's controls and the user entity's controls over the outsourced work.
- A Type 1 report covers the suitability of control design at a date; a Type 2 report covers design and operating effectiveness over a period.
- The carve-out method excludes subservice organisations; the inclusive method includes them. Complementary user entity controls are essential either way.
- Many Cambodian service organisations do not have a SOC report, so the auditor uses contracts, reconciliations, access reviews and exception reports instead.

When ISA 402 applies

ISA 402 applies when a user entity uses a service organisation and the services are relevant to the audit of the user entity's financial statements. The service can be a core accounting function, payroll, tax filing, IT hosting, payment processing or a customer platform. The standard does not apply to every outsourced activity; it applies where the service affects the financial statements and the auditor needs to understand the controls over it.

The user entity remains responsible for its financial statements and for the controls over the outsourced services. The service organisation is responsible for its own controls. The auditor's job is to obtain sufficient appropriate evidence about the design and operation of the controls that matter, whether they sit at the service organisation or at the user entity.

A subservice organisation is a service organisation used by another service organisation. The user auditor needs to know whether the service auditor's report is a carve-out report, which excludes the subservice organisation, or an inclusive report, which includes it. A carve-out report without complementary subservice organisation controls can leave a gap in the evidence.

Understanding the services

and the control environment

The auditor obtains an understanding of the nature of the services, the flow of transactions, the data and records the service organisation holds, the significance of the service to the user entity and the user entity's controls over the service. The service agreement, the SLA, the data flow diagram and the chart of accounts are a starting point, not the evidence itself.

The service organisation's controls may include access controls, change management, processing controls, reconciliations, backup and recovery, segregation of duties and incident management. The user entity's controls may include approval of the service organisation's output, reconciliation of the general ledger to the service organisation's report, review of exception reports, user access reviews and monitoring of the SLA.

Complementary user entity controls are the controls the service organisation assumes the user entity will operate for the service organisation's controls to be effective. For example, a payroll bureau may assume the client approves the employee master file and reviews the payroll variance report. If the client does not operate those controls, the service organisation's controls may not achieve the intended assurance.

WHERE THE CONTROLS SIT

Control	Service organisation	User entity
Employee master file	Processes changes	Approves additions and changes
Payroll calculation	Runs the payroll	Reviews the variance and approves payment
Accounting records	Hosts and processes	Reconciles the ledger and reviews the trial balance
Access	Grants access	Approves users and reviews access periodically
Exception reports	Produces the report	Reviews and resolves exceptions

Service auditor reports: Type 1 and Type 2

A service auditor's report is issued by another auditor on the service organisation's controls. A Type 1 report covers the suitability of the design of the controls at a specified date. A Type 2 report covers the design and operating effectiveness of the controls over a period, and is more useful when the auditor needs evidence of operation across the year.

The user auditor evaluates the report's scope, the period, the criteria, the service organisation's system description, the controls tested, the exceptions and the complementary user entity controls. A report that covers a period ending before the user entity's year-end needs a bridge letter or additional procedures for the gap. A report with significant exceptions may still be useful, but the auditor needs to understand the effect and the compensating controls.

The report is not a substitute for the auditor's own understanding of the user entity's controls. The user auditor still assesses the risk, designs the response and evaluates whether the evidence is sufficient. A SOC 1 report is the common financial-reporting report; a SOC 2 report may address security, availability or confidentiality but is not automatically a report on controls relevant to the user entity's financial statements.

> **Read the scope and the exceptions, not only the opinion**
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> A clean service auditor's opinion with a narrow scope or a long list of exceptions may provide less assurance than it appears. Check the period, the subservice organisations, the complementary controls and the exceptions before relying on it.

When there is no service auditor report

Many Cambodian service organisations — small bookkeeping firms, payroll bureaus and cloud providers — do not have a service auditor's report. ISA 402 does not require one. The auditor can obtain evidence through the service agreement, the SLA, the service organisation's process documentation, a site visit, walkthroughs, access reviews, reconciliations, exception reports and agreed-upon procedures.

The user entity's controls become more important when the service organisation has no report. The client should approve the service organisation's output, reconcile the records, review the exceptions, restrict access and monitor the service. The auditor tests those controls and considers whether the evidence is sufficient for the financial statement risk.

If the auditor cannot obtain sufficient appropriate evidence, the auditor considers the effect on the audit opinion. A scope limitation may lead to a qualified opinion, a disclaimer or a modification, depending on the pervasiveness. The auditor should communicate the issue to those charged with governance before the report is issued.

Cambodian outsourcing and cloud accounting

Cambodian companies increasingly outsource bookkeeping, payroll, tax filing and IT to local firms or use cloud accounting platforms. The service organisation may be a related party, which adds a related-party disclosure and independence dimension. The service agreement should define the data ownership, the access rights, the confidentiality, the backup and the exit arrangement.

The auditor should consider the data flows between the client, the service organisation and the tax authority. A payroll bureau that files the monthly Tax on Salary return, or a bookkeeper that prepares the VAT return, is part of the financial reporting chain. The controls over the payroll master file, the VAT data and the tax payments are relevant to the audit even if the service organisation is small.

Cloud accounting does not remove the client's responsibility. The client still approves entries, reconciles the bank, reviews the reports and controls access. The auditor obtains evidence from the platform and the service organisation, and tests the client's controls over the data.

Documentation and reporting

The audit file should document the service organisation, the services, the significance, the controls identified, the evidence obtained, the service auditor's report and the evaluation, the complementary user entity controls, the exceptions and the conclusion. The documentation should be sufficient for an experienced auditor to understand the work and the judgement.

ISA 402 interacts with ISA 315 (risk assessment), ISA 330 (responses), ISA 500 (evidence), ISA 230 (documentation) and, for groups, ISA 600. The auditor should also consider ISA 250 if the service organisation handles tax or regulatory filings, and ISA 550 if the service organisation is a related party.

- Service agreement, SLA and data flow diagram.
- Service auditor's report, bridge letter and the evaluation of scope and exceptions.
- Complementary user entity controls and evidence that the client operates them.
- Reconciliations, exception reports and access reviews.
- The conclusion on sufficiency and the effect on the audit opinion.

Key facts

How this article is checked

Figures were verified against the sources listed below in November 2026 and are re-checked each January or when the rule changes. Written by Liv Bonito, Co-founder & Managing Director. General information, not advice on your situation: for that, talk to a partner.

QUESTIONS

Questions people ask

Is a SOC 2 report the same as a service auditor's report under ISA 402?

Not necessarily. ISA 402 needs evidence about controls relevant to the user entity's financial statements. A SOC 1 report is designed for that purpose; a SOC 2 report addresses security, availability or confidentiality and may be relevant, but it is not automatically a substitute. The auditor evaluates the scope, criteria and period.

Does ISA 402 require the service organisation to have a service auditor's report?

No. ISA 402 does not require a report. The auditor can obtain evidence through the service agreement, walkthroughs, access reviews, reconciliations, exception reports and other procedures. The report is one source of evidence, not a mandatory condition.

What if the service organisation refuses access?

The auditor considers alternative procedures at the user entity, such as reconciliations, output reviews and access controls. If sufficient appropriate evidence cannot be obtained, the auditor considers the effect on the opinion, including a scope limitation, and communicates with those charged with governance.

Who is responsible for the controls over an outsourced payroll?

The user entity remains responsible for its financial statements and for the controls over the outsourced service. The service organisation is responsible for its own controls. Complementary user entity controls, such as approval of the employee master file and review of the payroll variance, are part of the user entity's control environment.

SOURCES

Where the rules come from

01 ISA 402 Audit Considerations Relating to an Entity Using a Service Organisation — International Auditing and Assurance Standards Board / KICPAA

02 ISA 315, ISA 330, ISA 500 and ISA 230 — International Auditing and Assurance Standards Board

03 ISA 600 Group Audits — International Auditing and Assurance Standards Board

04 CISA / CISQM standards applied in Cambodia — Kampuchea Institute of Certified Public Accountants and Auditors (KICPAA)