



RECKENEN

FOCUS ON SAS 70 & SSAE 16



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SAS 70 & SSAE 16 Overview

The Statement on Auditing Standards 70, known as SAS 70, is an auditing standard, officially titled "Reports on the Processing of Transactions by Service Organizations." It was created by the American Institute of Certified Public Accountants (AICPA). SAS 70 is recognized worldwide as a standard of quality for service organizations. The standard has recently been updated in the United States as SSAE 16 and internationally as IASE 3402.

Statement on Auditing Standards (SAS) No. 70, Service Organizations, is a widely recognized auditing standard developed by the American Institute of Certified Public Accountants (AICPA). A service auditor's examination performed in accordance with SAS No. 70 (also commonly referred to as a "SAS 70 Audit") is widely recognized, because it represents that a service organization has been through an in-depth audit of their control objectives and control activities, which often include controls over information technology and related processes. In today's global economy, service organizations or service providers must demonstrate that they have adequate controls and safeguards when they host or process data belonging to their customers. In addition, the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 make SAS 70 audit reports even more important to the process of reporting on the effectiveness of internal control over financial reporting.

SAS No. 70 is the authoritative guidance that allows service organizations to disclose their control activities and processes to their customers and their customers' auditors in a uniform reporting format. The issuance of a service auditor's report prepared in accordance with SAS No. 70 signifies that a service organization has had its control objectives and control activities examined by an independent accounting and auditing firm. The service auditor's report, which includes the service auditor's opinion, is issued to the service organization at the conclusion of a SAS 70 examination.

SAS No. 70 provides guidance to enable an independent auditor ("service auditor") to issue an opinion on a service organization's description of controls through a Service Auditor's Report (see below). SAS 70 does not specify a pre-determined set of control objectives or control activities that service organizations must achieve. Service auditors are required to follow the AICPA's standards for fieldwork, quality control, and reporting. A SAS 70 Audit is not a "checklist" audit.

SAS No. 70 is generally applicable when an independent auditor ("user auditor") is planning the financial statement audit of an entity ("user organization") that obtains services from another organization ("service organization"). Service organizations that impact a user organization's system of internal controls could be application service providers, bank trust departments, claims processing centers, data centers, third party administrators, or other data processing service bureaus.

In an audit of a user organization's financial statements, the user auditor obtains a sufficient understanding of the entity's internal control in order to plan the audit as required in SAS No. 55,

Consideration of Internal Control in a Financial Statement Audit. Identifying and evaluating relevant controls is generally an important step in the user auditor's overall approach. If a service organization provides transaction processing, data hosting, IT infrastructure or other data processing services to the user organization, the user auditor may need to gain an understanding of the controls at the service organization in order to properly plan the audit and evaluate control risk.

Why have an SSAE 16 (formerly SAS 70) review performed?

Some organizations have heard of SAS 70 or SSAE 16, but don't really know WHY they need to pay to have a bunch of auditors trounce through their company for a month or two during the year, especially right after having survived their financial audits.

The answer is simple: Most companies would not even consider hiring your company's services without a clean Type II Report in place.

Added benefits of having an SSAE 16 (formerly SAS 70) performed

✓ **Ability to perform outsourced services for Public Companies.**

When outsourcing financially significant duties, Public Companies are required to use SSAE 16 qualified providers in order to provide investors with a sense of security over controls performed outside of the Company in question.

✓ **Public and Private companies are more likely to trust your organization with their data.**

If you were to trust a company with your data, would you not want complete assurance that it will be handled with the utmost care?

✓ **A year round accessible knowledge source (your auditors).**

As a service organization, large or small, you will always have to grapple with questions regarding your business, one after the other. Wouldn't it be nice to have a network of auditors already in place, that too with existing access to a wide array of business knowledge, allowing you to bounce your questions and concerns off of a group of seasoned professionals?

✓ **A third party to review your controls and activities to ensure they are functioning appropriately, and give advice on how to improve upon them.**

Your internal audit department may be good, but not always as stringent as they should be. Externalizing the audit process would not only compensate for this problem, but would also serve as a check on the associated staff. Additionally, were there any problems identified in the audit, your auditors would be glad to give you some tips on how to ensure everything functions smoothly the upcoming period.

✓ **Improving the overall performance of your company.**

Just the knowledge that a review is being performed can have far reaching effects on the performance of individual employees and consequently, the company as a whole. No more, “Oh, I didn’t realize that reviewing user access was THAT important to do this month, Sorry!”, now, everybody would be aware that a job poorly done could lead to a company-wide disaster.

Types of SSAE 16 (formerly SAS 70) reports

There are two types of Service Auditor's Reports: Type I and Type II.

A **Type I** report describes the service organization's description of controls at a specific point in time (e.g. June 30, 2010).

A **Type II** report not only includes the service organization's description of controls, but also includes detailed testing of the service organization's controls over a minimum six month period (e.g. January 1, 2010 to June 30, 2010).

The contents of each type of report are described in the following table:

Report Contents	Type I Report	Type II Report
1. Independent service auditor's report (i.e. opinion)	Included	Included
2. Service organization's description of its system (including controls).	Included	Included
3. Information provided by the independent service auditor; includes a description of the service auditor's tests of operating effectiveness and the results of those tests	Optional	Included
4. Other information provided by the service organization (e.g. glossary of terms).	Optional	Included

In a Type I report, the service auditor, aided with subject matter provided by the management of the service organization, addresses the questions of (1) whether the service organization's description of its system fairly presents the service organization's system that was designed and implemented as of a specific date; and (2) whether the controls related to the control objectives stated in management's description of the service organization's system were suitably designed to achieve those control objectives - also as of a specified date.

Alternately, a Type II report addresses these questions, (1) whether the service organization's description of its system fairly presents the service organization's system that was designed and implemented throughout the specified period; (2) whether the controls related to the control objectives stated in management's description of the service organization's system were suitably designed throughout the specified period to achieve those control objectives; and (3) whether the controls related to the control objectives stated in management's description of the service organization's system operated effectively throughout the specified period to achieve those control objectives.

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For more information about Reckenen, visit www.reckenen.com



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