



ACCOUNTING ALERT

October 5, 2010

SAS 70 Replaced by SSAE No. 16: Understanding the New Standard

Background

Since 1992, Statement on Auditing Standards No. 70 (SAS 70) has been the industry standard for reporting on controls at service organizations. Recently, the International Auditing and Assurance Board (IASB) and the Auditing Standards Board (ASB) in the United States have undertaken an effort to develop a new standard with a global consistency in mind. The new standard, Statement on Standards for Attestation Engagements No. 16 (SSAE 16) was introduced in April 2010. It makes an effort to converge with International Standard on Assurance Engagements (ISAE) 3402 - the international standard for controls at a third party service organization.

The new SSAE No. 16 standard must be used for reports covering periods ending on or after June 15, 2011 (early adoption is permitted). Because some reporting periods cover 12 months and end in June, the new standard may impact some organization's reporting periods beginning as early as July 2010.

Changing Standards for Service Organizations

Although there are a number of specific changes being introduced with the new standard, we have recapped some of the more significant changes that will impact service organizations and their auditors.

Under the new approach by the IASB and the ASB, the existing SAS 70 standard will actually be replaced with two standards:

- A new auditing standard that will provide guidance to auditors who are performing financial statement audits of companies that use service organizations. This guidance is for the auditors of companies that engage third-party service providers
- A new attestation standard (SSAE 16) that will provide guidance to service auditors (like Reznick Group) as they conduct audits of service organizations.

SSAE No 16 vs. SAS 70: What's Different?

The following summarizes the notable inclusions and key differences between the new SSAE No. 16 standard and SAS 70 as well as the implications/requirements for our SAS 70 clients.



Section	Differences from Existing Standard	Implications/Requirements
<i>Management Assertion</i>	You will now be required to provide an assertion (assessment of controls), which will be included in the final report.	You will be required to write an assessment of controls, which will be included in the final report. This is a written assertion that must confirm: 1) that the description of controls is fairly presented based on how the system was designed and implemented to process relevant transactions, and does not omit or distort information relevant to the scope of the system/process being audited, and 2) that the control objectives are suitably designed and operating effectively throughout the entire audit period.
<i>Description of System</i>	SAS 70 reports already include a description of the service organization's controls. The new standard expands the description to comprehend the service organization's <i>system</i> . Controls are only a portion of a broader system that includes the policies and procedures that have been designed, implemented, and documented by the service organization to provide the services covered by the service auditor's report.	This will require some additional effort on your part, in writing the description of the system.
<i>Suitable Criteria</i>	The criteria to be used by you as a basis for: preparing and presenting the description of the system, evaluating whether the controls are suitably designed, and, in the case of a Type 2 report, in evaluating whether controls are operating effectively is now specifically defined in the new standard. It was not specifically defined in the SAS 70 standard.	Reznick Group will be required to assess whether you have used suitable criteria, as defined in the new standard, as a basis for the description of the system, evaluating design of controls and evaluating whether controls are operating effectively.



<i>Assertion Timing</i>	The assertions on which Reznick Group is providing an opinion in the “Independent Service Auditors’ Report” of the SAS 70 include “fairness of presentation,” and “suitability of design.” Under the new standard, all assertions will be for a period of time, whereas under the current SAS 70 standard the opinions on “fairness of presentation” and “suitability of design” are only as of the date at the end of the audit period.	Since the design of controls must be suitable throughout the audit period, if issues arise during the audit with regard to the design of a control, they can be corrected (as with the SAS70); however, the issue will now be reported in the report as an exception.
<i>Materiality</i>	The new standard formalizes the way materiality is determined.	Reznick will assess the materiality of information being reported on to help ensure it meets the common information needs of a broad range of user entities (your customer) and their auditors.
<i>Risk Assessment</i>	You will now be required to perform a formal risk assessment, which will be addressed within the management assertion.	Formalizing your risk assessment implies that you will need to document the risk assessment, and reference it within the management assertion mentioned above.
<i>Use of Subservice Organizations</i>	In the future, if a service organization wishes to include a description of controls at a subservice organization, the subservice organization must prepare a management assertion report similar to the management assertion provided by the service organization.	This impacts any service organization you might use as part of your control environment, as (if included in your SSAE 16) they will be required to write a management assertion to be included in the final report.

Reznick Group has extensive SAS 70 audit experience and can help our clients benefit from a SSAE No. 16 audit. Third-party service providers achieving the new standard will be well-positioned in providing their clients with greater confidence in their data security.

To learn more about SSAE No. 16 and Reznick Group’s comprehensive services for third-party service providers, please contact Michael Hammond (404) 250-4066 or Donnie Sievers (404) 845-4706. Visit us online at www.reznickgroup.com/sas70.

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