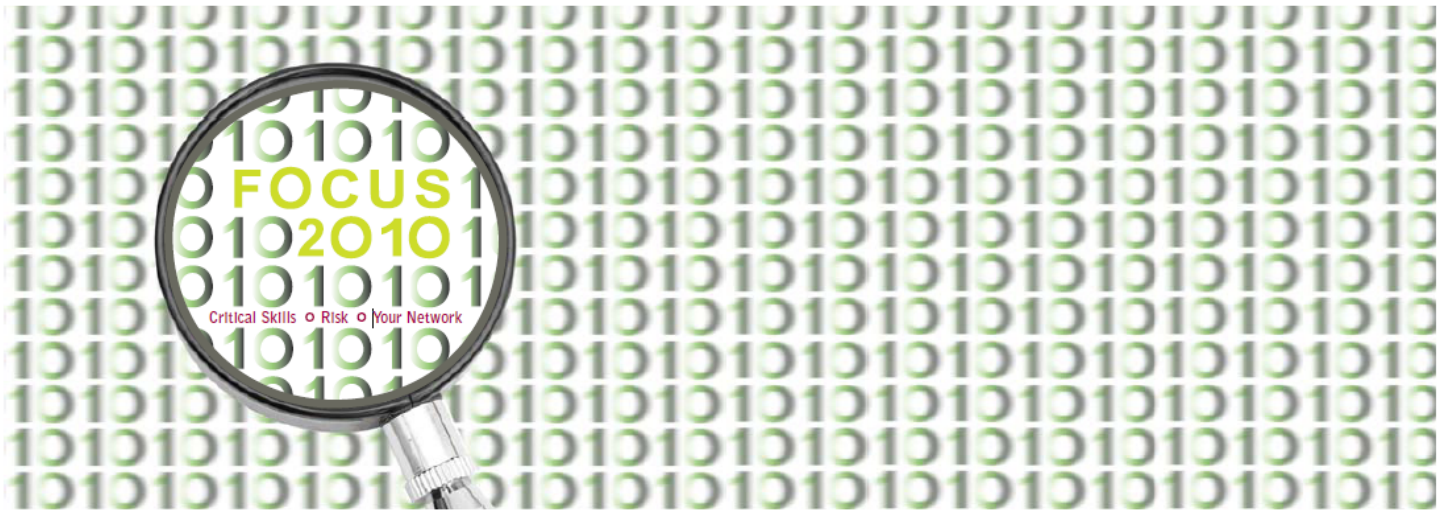


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G24: Audits of Controls at a Service Organization: New Standards SSAE 16 and ISAE 3402

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Audits of controls at a service organization

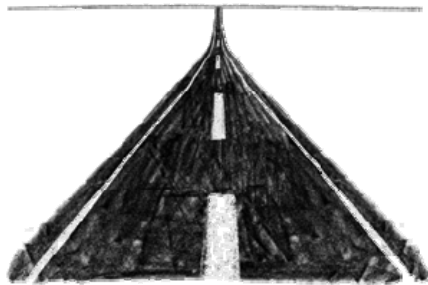
Roadmap to the new standards SSAE 16 and ISAE 3402



Overview

1. Background on the new standards
2. Key differences between SAS 70 and SSAE 16
3. Key differences between SSAE 16 and ISAE 3402
4. 10 steps for transition success
5. Applying the right standard

What lies ahead for auditing controls at a service organization?



Background on the new standards

- Since April 1992, **SAS 70** has been the U.S. standard to report on controls at a service organization.
- The increasing importance of internal control and reporting, combined with the fact that many countries do not have their own standard for reporting on service organizations, generated a need to update the SAS 70 standard to address the increasing importance of internal control over financial reporting (**SSAE 16**) and develop an international standard to report on controls at service organizations (**ISAE 3402**).

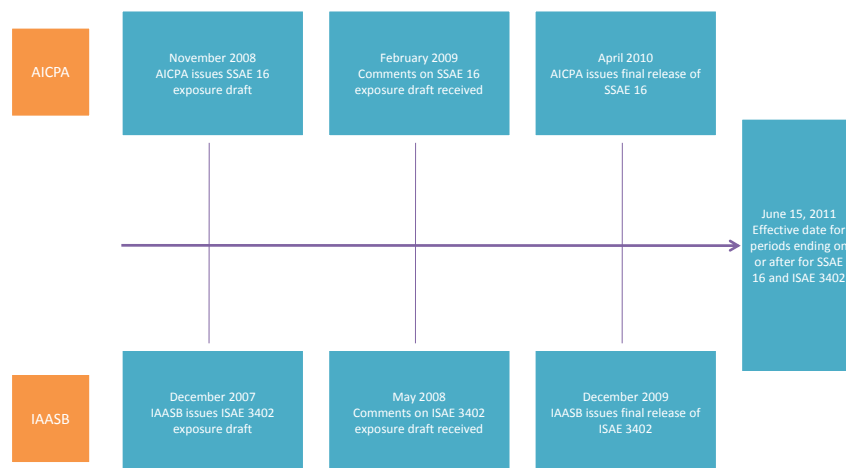


Background on the new standards – Need for new standards

- A need to have a **global standard** to report on controls at a service organization to address the trend of globalization of process outsourcing (SAS 70 is a U.S. standard)
- Changes in the regulatory landscape have generated a need for **additional information** regarding internal control over financial reporting not currently covered by the SAS 70



Background on the new standards – Timeline



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Key differences between SAS 70 and SSAE 16

SAS 70	SSAE 16
Auditor's report need not be accompanied by management's written assertion	Management's written assertion required to accompany auditor's report
	Management's assertion must include the suitable criteria used for its assessment
Auditor's report need not be accompanied by a subservice organization's written assertion (inclusive method used)	If a service organization uses subservice organization(s) and elects to use the inclusive method, the subservice organization(s) assertion also accompanies the auditor's report



Key differences between SAS 70 and SSAE 16

SAS 70	SSAE 16
For Type 2 reports, the opinion on fair presentation of the system and suitability of design is as of a point in time	For Type 2 reports, the opinion on fair presentation of the system and suitability of design is for the period covered by the report



9

Key differences between SAS 70 and SSAE 16— Changes to the description of the system

- Section II will include more robust **description of the service organization's system**

“...aspects of the service organization's control environment, risk assessment process, information and communicating systems (including relevant business processes), control activities and monitoring activities that are relevant to the services provided.”



10

Key differences between SAS 70 and SSAE 16– Changes to the description of the system

- Additional information could include:
 - Services provided and related procedures
 - initiation, authorization, recording, processing, reporting
 - Classes of transactions processed
 - Processes to prepare reports for customers
 - Other aspects of COSO framework
 - Changes during period

11



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12



Key differences between SSAE 16 and ISAE 3402

- SSAE 16 was built upon the ISAE 3402 framework
- Due to AICPA / international standards convergence, differences between SSAE 16 and ISAE 3402 are minimal
- SSAE 16 is more conservative



13

Key differences between SSAE 16 and ISAE 3402

- Intentional Acts by Service Organization Personnel
- Direct Assistance
- Subsequent Events
- Statement Restricting Use of the Service Auditor's Report
- Documentation Completion
- Engagement Acceptance and Continuance
- Disclaimer of Opinion



14

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15



How do you get from here to there?



16



10 steps for transition success – Roadmap to the new standards

1. Work with an **experienced and knowledgeable service auditor** to better understand the implications of transitioning to SSAE 16 and ISAE 3402.
2. Work with the service auditor to determine whether **multiple service auditor reports** will be necessary.
3. Discuss with the service auditor whether the service auditor plans to **early adopt** the new standards.

17



10 steps for transition success – Roadmap to the new standards

4. Review internal **monitoring and/or testing** processes to determine if they are sufficient to support the written management assertion required by the standards.
5. Select and document the **criteria** that management would use to support its written management assertion.
6. Identify the **risks** that threaten the achievement of the control objectives.



18



10 steps for transition success – Roadmap to the new standards

7. Determine whether a written assertion from the **subservice organization** is necessary.
8. Review the existing SAS 70 **description of controls** and make any necessary enhancements to include any missing components to fully describe the system.

19



10 steps for transition success – Roadmap to the new standards



9. Develop a **communication plan** regarding the new standards for your customers and customer-facing employees, such as sales and contract teams.
10. Review **existing customer contracts** and templates to determine revisions necessary to transition to the new standards. Revise **contract templates** to account for the transition to the new standards.

20



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21



Applying the right standard – SSAE 16 or ISAE 3402?

- Service auditors in the U.S. will be required to follow SSAE 16
- For service organizations with international operations, the service auditor may also report under ISAE 3402

22



Applying the right standard – Timing

When should service auditors adopt the new standards?

- The standards are effective for reports with periods ending on or after **June 15, 2011**
- Early adoption of **SSAE 16** and **ISAE 3402** is permitted



23

Applying the right standard – Other attestation standards

- AT 201 – Agreed-Upon Procedures - issue a report of findings based on specific procedures performed on subject matter.
- AT 601 – Compliance Attestation - engagements related to either (a) an entity's compliance with requirements of specified laws, regulations, rules, contracts, or grants or (b) the effectiveness of an entity's internal control over compliance with specified requirements.



24

Questions



25



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26

