

HAVE YOU ASKED YOUR AUDITOR ABOUT SAS 70?

What It Is and Why You May Need It

In this era of good corporate governance and an emphasis on more effective internal controls, many companies have been asked by their clients to provide a SAS 70 report from their auditor.

SAS 70—the American Institute of Certified Public Accountants’ (AICPA) Statement on Auditing Standards No. 70—applies to organizations that provide services or use a service organization to process certain transactions. SAS 70 serves as a “report card” on service organizations. It provides information on factors an independent auditor should consider when auditing the financial statements of entities that use service providers to process transactions.



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SAS 70 is especially relevant for organizations such as web hosting companies, application service providers, insurance plan agents, telecommunication spend managers, healthcare claims administrators, healthcare billing companies, trust companies, global custody service providers, and registered investment advisors.

Two Types of SAS 70 Examinations

There are two types of SAS 70 examinations: Type I and Type II. Both focus on internal controls over IT; internal controls over transaction processing; and policies and procedures in multiple areas of the company

within the scope of the services provided to the user organization. Type I, “a point in time report,” focuses on the service organization’s description of controls, the design of the controls, and whether or not they have been placed in operation as of a specified date. Type II includes all of the Type I objectives plus a detailed testing of key controls. Type II reports are more comprehensive and, while required for public companies, are recommended for private businesses as well.

Any company contemplating a SAS 70 should first consider conducting a readiness

review, a dry run of the entire process so that deficiencies can be identified before the actual SAS 70 begins. The end product

of a readiness review is a summary of deficiencies and recommendations for remediation—deficiencies that can be remediated in advance of the actual SAS 70 examination in order to significantly reduce the possibilities of future findings.

The J.H. Cohn SAS 70 Process

J.H. Cohn has a dedicated group of professionals who are experienced and nationally recognized in the practice of auditing and assessing internal controls, IT, and compliance. We have developed all of our own audit programs in order to bring to you a streamlined, efficient, and effective process. We work with more than 200 clients a year on various attest engagements.

Based on our experience and preparing many SAS 70 examinations, we employ a customized approach for each client's needs. Our four phase approach is as follows:

- Phase I: Gaining an Understanding of Internal Control
- Phase II: Testing (for Type II)
- Phase III: Review and Wrap-Up
- Phase IV: Reporting

We begin gaining an understanding of internal control by reading your written description of controls and control objectives and conducting interviews. We will then perform observations and walkthroughs and design appropriate procedures. In the testing phase, all aspects of the managed services including input, processing, output, policies, procedures, documentation, security, and consistency of operations are examined. During the testing phase we will communicate to you the results and findings.

In the review and wrap-up phase we will complete our work programs and provide to you a draft report including our opinion, your description, and the results of our testing. Based on your feedback, modifications are made, if appropriate, and the draft is then reviewed by our quality control department.

Lastly, in the report stage the SAS 70 report is finalized and the management representation letter is provided by you.

In order to ensure that the SAS 70 examination process is efficient and effective we believe the following are keys to success:

- Executive support
- Proper "tone at the top" as to the importance
- Open communications

Don't Wait. Consider a Proactive Approach

Why not just wait until a client asks to see your SAS 70? If your clients request a SAS 70 and you don't have one, a few different scenarios could arise. The client could say, "We are going to hire someone else," or could ask their auditors to audit you. If you have several clients that happen to be public companies, you may have to repeat the external auditor exercise multiple times—which could absorb substantial amounts of company time.

Having a SAS 70 report ready allows you to focus on your business and may also give you an upper hand competitively. An unqualified SAS 70 report is the industry standard for showing clients that you have sufficient internal controls. Because it's produced by an independent auditor, the report establishes or bolsters your reputation for reliable management of the services you provide to clients that impact their internal controls.

Private companies that have the goal of being acquired by a public company may also benefit from a SAS 70. If they have a SAS 70 Type II conducted in advance, they have the opportunity to improve any deficiencies before they are acquired, which can help to ensure the best price for the business.

Now more than ever, clients look for companies they can trust—companies that have strong internal controls and procedures in place for how they provide vital services to their clients. Having a SAS 70 before your client asks for it shows your clients that you're responsible, reliable, and qualified to handle their business. ■

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For more information on J.H. Cohn's Accounting and Audit Practice, [click here.](#)

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