

SAS 70s ARE CHANGING

Where Are We Now and What Can We Expect Before the End of the Calendar Year?

Statement on Standards for Attestation Engagements No.16, *Reporting on Controls at a Service Organization* (“AT 16”), issued by the Auditing Standards Board of the American Institute of Certified Public Accountants (AICPA) in April 2010, and auditing standard *Audit Considerations Relating to an Entity Using a Service Organization*, will supersede the previous guidance in SAS 70, whose reports serve as a “report card” on service organizations and provide information on factors an independent auditor should consider when auditing the financial statements of an entity that uses service providers to process transactions (For more information on these reports, read J.H. Cohn’s previous article “Have You Asked Your Auditor About SAS 70?”).

Changes to the Standard

The SAS 70 standard was recently replaced with two new standards that separate auditing guidance relevant to the two different types of organizations. The AICPA has indicated that the SAS 70 standard has changed to address concerns regarding the clarity, length, and complexity in existing U.S. auditing standards. In addition, the changes were made to converge U.S. auditing standards with those of the International Auditing and Assurance Standards Board (“IAASB”).

The first, AT 16, is effective for periods ending on or after June 15, 2011 and includes guidance for service auditors. It will require some changes by services organizations; these, however, are not a

drastic departure from the original SAS 70. The key changes include:

1. Management of the service organization is required to provide the service auditor with a written assertion about (1) the fairness of the presentation of the

5. Distribution of a Type 2 report is limited to customers of the service organization during the period covered by the report. For Type 1 reports distribution is limited to customers of the service organization as of the date of the report.

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description of the system, (2) the suitability of the design of the controls, and in a Type 2 engagement, (3) the operating effectiveness of those controls. In the original SAS 70 this would have been included in management’s representation letter provided to the auditor at the conclusion of the engagement.

2. The description of *controls* is referred to as a description of the system.
3. The description of *the system* is prepared using suitable criteria, such as objectivity, measurability, completeness, and relevance.
4. The description of the system is not limited to controls as they relate to user entities’ financial reporting; however, including a description of a system that is not related to financial reporting is optional based on the needs of the service organization and their user organizations.

AT 16 also prompts changes for services auditors, including:

1. Service auditors will attest to management’s assertion.
2. Although AT 16 addresses controls at service organizations that are likely to be relevant to user entities’ controls over financial reporting, the service auditor may use the guidance in it when performing engagements under AT 101 Attest Engagement to report on controls at a service organization other than those relevant to user entities’ internal control over financial reporting.
3. Type 2 opinions on fairness of the presentation of the description and the suitability of the design of controls covers a period rather than a specified date.
4. The service auditor is required when obtaining an understanding of the service organization’s system to identify risks that the description of the system

is not fairly presented or that the control objectives are not achieved due to intentional acts by service organization personnel.

5. The service auditor should investigate the nature and cause of any deviations identified, including considering whether the deviations may be the result of intentional acts by service organization personnel.
6. The results of prior year tests cannot be used as a basis to reduce current year testing when performing a Type 2 engagement.

The second standard effects CPAs auditing the financial statements of an entity that uses a service organization.

Conclusion

SAS 70s are changing and the changes will affect service organization, service auditors, user entities, and user auditors. The good news is that the changes result in clearer and less complex standards that do not require significant additional efforts to implement. For service organizations with international customers reports prepared under AT 16 should be acceptable to user auditors in other countries since the standard converges with International Standards on Auditing. ■

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