



## SAS 70 Reports - Soon a Thing of the Past

### The New Service Provider Reporting Standards

By: Lawrence M. Whalen, Patrick J. Hatfield and Sean C. Fifield

For nearly 20 years, the Statement on Auditing Standards No. 70 ("SAS 70") has been the primary standard for reporting on and assessing the effectiveness of the internal controls of service providers. Not only do service providers regularly commission SAS 70 reports on themselves, many other companies also insist that their vendors (especially information technology and outsourcing vendors) commission such reports. However, the globalization of business process outsourcing and a changing regulatory environment created the desire for more uniform international standards, as well as greater information regarding service providers' internal controls affecting their clients' financial reporting.

In January 2010, the American Institute of Certified Public Accountants Auditing Standards Board issued Statement on Standards for Attestation Engagements No. 16 ("SSAE 16") (which is substantially similar to International Standard on Assurance Engagements 3402 issued by the IAASB in 2009) and replaces SAS 70. SSAE 16 will be effective for reports for periods ending on or after June 15, 2011. However, service providers may adopt the new standards early.

#### The New SSAE 16 Report

Although similar to SAS 70 in many respects, SSAE 16 requires the following changes to a service provider's processes and reports:

##### A) More Comprehensive Description of the Service Provider's System

The new standard requires a comprehensive description of a service provider's system, including the personnel, technology, data, procedures and infrastructure used to provide services to its clients. This is a significant change from SAS 70, which only requires a description of the relevant service provider controls.

The description of the service provider's system will include a description of: (i) the services provided and classes of transactions processed by the service provider; (ii) the procedures by which the services are provided; (iii) the process for capturing and addressing other significant events and conditions; and (iv) the process for preparing reports and providing information to clients.

##### B) Written Management Assertion

The new SSAE 16 standard requires a written assertion by the service provider management to the auditor representing that: (i) the description of the system fairly presents the service provider's system; (ii) the control objectives were suitably designed (Type I report), and operating effectively (Type II report) for the periods covered by the report; and (iii) the criteria used for making the assertions were in place (Type I report) and consistently applied (Type II report).



### C) Risks

The new standards also require the service provider to clearly identify the risks that threaten achieving the control objectives, and to evaluate whether the internal controls provide reasonable assurance that the identified risks would not prevent attaining the control objective.

### D) Subcontractor Reporting

Under SSAE 16, as under SAS 70, either the inclusive method or the carve-out method may be used to report on the services provided by subcontractors.

Under the inclusive method, the service provider's description of its system will include the services performed by the subcontractor, together with the relevant control objectives and controls of the subcontractor. The subcontractor is also required to provide a written assertion similar to the service provider's management assertion.

Under the carve-out method, when reporting on a subcontractor used to perform services for the client, the service provider's description of its system will not include a description of the subcontractor's controls; however, the service provider should include a description of its systems to monitor the effectiveness of controls of the subcontractor.

## Implications for Companies

In preparing for these changes, both service providers and their clients should review and update their existing contracts and contract templates to ensure they meet the new standards. At the very least, companies engaging service providers will want to make sure the references to SAS 70 reports in their contract documentation are replaced with references to the SSAE 16 reports. This also may be an opportune time for companies to review their relationships with service providers (especially those with access to critical or sensitive functions within the company) to determine whether it is appropriate to require such service providers to provide SSAE 16 reports going forward.

Service providers will want to contact their auditors to discuss any changes in the methods for conducting the new SSAE 16 reports. Such a discussion should cover changes to the scope of the review and the nature of the report to be issued, compared to the scope and nature of the prior SAS 70 reports.

For more information on the matters discussed in this QuickStudy, please contact the authors:

**Lawrence M. Whalen** | T: 713-226-1317 | [lwhalen@lockelord.com](mailto:lwhalen@lockelord.com)

**Patrick J. Hatfield** | T: 512-305-4787 | [phatfield@lockelord.com](mailto:phatfield@lockelord.com)

**Sean C. Fifield** | T: 312-443-1787 | [sfifield@lockelord.com](mailto:sfifield@lockelord.com)