

The AICPA's Auditing Standards Board (ASB) has issued the Statement on Standards for Attestation Engagements (SSAE) No. 16, *Reporting on Controls at a Service Organization*. This new standard will replace the previous Statement on Auditing Standards (SAS) No. 70, *Service Organizations* for all service auditors' reports for periods ending on or after June 15, 2011, with earlier implementation permitted and encouraged.

Similar to SAS 70, SSAE 16 is applicable when an entity ("user entity") outsources a business task or function to another entity ("service entity") and the data resulting from that task or function is incorporated in the user entity's financial statements. Developed in conjunction with the International Auditing and Assurance Standards Board (IAASB), SSAE 16 was issued by the ASB to enhance transparency and consistency.

The new standard differs from the international standard only slightly for intentional acts, use of internal audit, subsequent events and restriction of the report.

Similarities	Differences
<ul style="list-style-type: none"> <li>• Scope remains focused on controls relevant to the user entity's internal control over financial reporting</li> <li>• There will still be Type 1 and Type 2 reports</li> <li>• The inclusive or carve-out method for subservice organizations is still applicable</li> <li>• The service organization's description of controls under SAS 70 will generally be the basis for the system description under SSAE 16</li> <li>• Type 2 reports should cover a minimum of six months</li> <li>• Restriction on use of the report remains the same</li> <li>• Service auditor's tests included in the report</li> <li>• Sample sizes disclosed only when exceptions are noted</li> </ul>	<ul style="list-style-type: none"> <li>• New auditor's standard for "user auditor" consideration of internal control when processing is performed by a service organization</li> <li>• New standard is an attest standard, not an audit standard (a separate audit standard will be issued to address the requirements of the user auditor)</li> <li>• New attestation standard to guide service auditors in conduct of an examination of and the resultant reporting, on controls at a service organization.</li> <li>• Management of the service organization will provide a written assertion regarding the subject matter of the report – in this case, the fairness of presentation of the controls, their suitability of design and the effectiveness of their operation</li> <li>• The written management assertion will be included in the report – the service auditor will attest versus the service auditor reporting directly on the service organization's internal controls (See Appendix A).</li> <li>• Subservice organizations are required to provide a similar management assertion to be included in the report when the inclusive method is used</li> <li>• In a Type 2 report, the service auditor opines on suitability of the design of controls related to the control objectives throughout the entire period</li> <li>• Use of the service organization's internal audit personnel by the service auditor must now be disclosed</li> <li>• The new standard also includes a new service auditor's report, based on attestation standards, but significantly modified to reflect the history of SAS 70 (See Appendix B)</li> <li>• Specific audit considerations must be given by the service auditor regarding fraud and management overrides</li> </ul>

## SSAE 16 to Replace SAS 70

As your company prepares for compliance with this new standard, it's important to understand that Management will face some new requirements under SSAE 16:

- **Management's Assertion.** Probably the most important change with the new standards is that Management is required to provide a written assertion stating that the controls are fairly presented, suitably designed and operating effectively (for a Type 2 report) to achieve the specified control objectives. Management's assertion will be included in, or attached to, management's description of the system. If a subservice organization is included under the inclusive method, their report along with the corresponding management assertion must also be included.
- **Management's Description of the System.** Management is responsible for preparing its description of the service organization's system. This is generally consistent with current practice. The description should specify control objectives and related controls over the entire period, and risks that threaten such controls should be identified.
- **Management's Responsibility for Documenting the System.** Management of the service organization is responsible for documenting the service organization's system. No one particular form of documentation is prescribed and the extent of documentation may vary depending upon the size and complexity of the service organization and its monitoring activities. As such, management must have more than a passive interest in forming its assertion on the fairness of presentation of the system, the suitability of design of the controls, and the effectiveness of the operation of the controls to meet the specified control objectives.

### TIMETABLE

The proposed effective date for the new standard is for **reporting periods ending after June 15, 2011**. Since service auditor reports may cover any period from six to twelve months, service auditors may be operating under the new standard as early as the 2nd quarter of 2010. The IAASB and ASB are permitting early adoption of the new standard.

**For more information on your current SAS 70 needs or future SSAE requirements, please contact Ray Clinebelle at [rclinebelle@cbh.com](mailto:rclinebelle@cbh.com) or 919.782.1040.**

### ABOUT CB&H



For more than 60 years, Cherry, Bekaert & Holland, L.L.P. (CB&H) has provided high-quality financial and management services to a diverse and successful client base. Currently ranked among the top 30 accounting firms in the nation, CB&H is uniquely positioned to impart quality, cost-effective and practical advice to clients that include multinational corporations, private businesses, nonprofit organizations, governmental entities, emerging or start-up firms, and successful individuals.

## EXAMPLE MANAGEMENT ASSERTION

The following is an example of management's assertion taken from the SSAE 16 standard:

### XYZ Service Organization's Assertion

[DATE]

XYZ Service Organization  
Street and/or Postal Address  
City, State, Zip Code

We have prepared the description of XYZ Service Organization's [type or name of] system (description) for user entities of the system during some or all of the period [date] to [date], and their user auditors who have sufficient understanding to consider it, along with other information, including information about controls implemented by user entities of the system themselves, when assessing the risk of material misstatements of user entities' financial statements. We confirm, to the best of our knowledge and belief, that

- a. the description fairly presents the [type or name of] system made available to user entities of the system during some or all of the period [date] to [date] for processing their transactions [or identification of the function performed by the system]. The criteria we used in making this assertion were that the description
  - i. presents how the system made available to user entities of the system was designed and implemented to process relevant transactions, including
    - (1) the classes of transactions processed.
    - (2) the procedures, within both automated and manual systems, by which those transactions are initiated, authorized, recorded, processed, corrected as necessary, and transferred to the reports presented to user entities of the system.
    - (3) the related accounting records, supporting information, and specific accounts that are used to initiate, authorize, record, process, and report transactions; this includes the correction of incorrect information and how information is transferred to the reports presented to user entities of the system.
    - (4) How the system captures and addresses significant events and conditions, other than transactions.
    - (5) the process used to prepare reports or other information provided to user entities' of the system.
    - (6) Specified control objectives and controls designed to achieve those objectives.
    - (7) Other aspects of our control environment, risk assessment process, information and communication systems (including the related business process), control activities, and monitoring controls that are relevant to processing and reporting transactions of user entities of the system.
  - ii. does not omit or distort information relevant to the scope of the [type or name of] system, while acknowledging that the description is prepared to meet the common needs of a broad range of user entities of the system and the independent auditors of those user entities, and may not, therefore, include every aspect of the [type or name of] system that each individual user entity of the system and its auditor may consider important in its own particular environment.
- b. the description includes relevant details of changes to the service organization's system during the period covered by the description when the description covers a period of time.
- c. the controls related to the control objectives stated in the description were suitably designed and operated effectively throughout the period [date] to [date] to achieve those control objectives. The criteria we used in making this assertion were that
  - i. the risks that threaten the achievement of the control objectives stated in the description have been identified by the service organization;
  - ii. the controls identified in the description would, if operating as described, provide reasonable assurance that those risks would not prevent the control objectives stated in the description from being achieved; and
  - iii. the controls were consistently applied as designed, including whether manual controls were applied by individuals who have the appropriate competence and authority.

Sincerely,

Name  
Title

# EXAMPLE AUDITOR'S REPORT

The following is an example of an auditor's report taken from the SSAE 16 standard:

## Independent Service Auditor's Report

[DATE]

XYZ Service Organization  
Street and/or Postal Address  
City, State, Zip Code

### Scope

We have examined XYZ Service Organization's description of its [type or name of] system for processing user entities' transactions [or identification of the function performed by the system] throughout the period [date] to [date] (description) and the suitability of the design and operating effectiveness of controls to achieve the related control objectives stated in the description.

### Service organization's responsibility

On page XX of the description, XYZ Service Organization has provided an assertion about the fairness of the presentation of the description and suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the description. XYZ Service Organization is responsible for preparing the description and the assertion, providing the services covered by the description, specifying the control objectives and stating them in the description, identifying the risks that threaten the achievement of the control objectives, selecting the criteria, and designing, implementing, and documenting controls to achieve the related control objectives stated in the description.

### Service auditor's responsibilities

Our responsibility is to express an opinion on the fairness of the presentation of the description and on the suitability of the design and operating effectiveness of the controls to achieve the related control objectives stated in the description, based on our examination. We conducted our examination in accordance with attestation standards established by the American Institute of Certified Public Accountants. Those standards require that we plan and perform our examination to obtain reasonable assurance about whether, in all material respects, the description is fairly presented and the controls were suitably designed and operating effectively to achieve the related control objectives stated in the description throughout the period [date] to [date].

An examination of a description of a service organization's system and the suitability of the design and operating effectiveness of the service organization's controls to achieve the related control objectives stated in the description involves performing procedures to obtain evidence about the fairness of the presentation of the description and the suitability of the design and operating effectiveness of those controls to achieve the related control objectives stated in the description. Our procedures included assessing the risks that the description is not fairly presented and that the controls were not suitably designed or operating effectively to achieve the related control objectives stated in the description. Our procedures also included testing the operating effectiveness of those controls that we consider necessary to provide reasonable assurance that the related control objectives stated in the description were achieved. An examination engagement of this type also includes evaluating the overall presentation of the description and the suitability of the control objectives stated therein, and the suitability of the criteria specified by the service organization and described at page [aa]. We believe that the evidence we obtained is sufficient and appropriate to provide a reasonable basis for our opinion.

### Inherent limitations

Because of their nature, controls at a service organization may not prevent, or detect and correct, all errors or omissions in processing or reporting transactions [or identification of the function performed by the system]. Also, the projection to the future of any evaluation of the fairness of the presentation of the description, or conclusions about the suitability of the design or operating effectiveness of the controls to achieve the related control objectives is subject to the risk that controls at a service organization may become inadequate or fail.

### Opinion

In our opinion, in all material respects, based on the criteria described in XYZ Service Organization's assertion on page [aa].

- a. the description fairly presents the [type or name of] system that we designed and implanted throughout the period [date] to [date].
- b. the controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period [date] to [date].
- c. The controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period [date] to [date].

### Description of tests of controls

The specific controls tested and the nature, timing, and results of those tests are listed on pages [yy-zz].

### Restricted use

This report, including the description of tests of controls and results thereof on pages [yy-zz], is intended solely for the information and use of XYZ Service Organization's [type or name of] system during some or all of the period [date] to [date], and the independent auditors of such user entities, who have a sufficient understanding to consider it, along with other information including information about controls implemented by user entities themselves, when assessing the risks of material misstatements of user entities' financial statements. This report is not intended to be and should not be used by anyone other than these specified parties.

[Service auditor's signature]

[Date of the service auditor's report]

[Service auditor's city and state]