



## Reporting on Controls at a Service Organization (SSAE 16 (formerly SAS 70)): FAQs

August 2011

## What is a SSAE 16 (formerly SAS 70)?

A SSAE 16 is an examination which reports on the controls at a service organization. SSAE 16 stands for "Statement on Standards for Attestation Engagements No. 16," which was created by the American Institute of Certified Public Accountants (AICPA) and was effective June 15, 2011. Its predecessor was the SAS 70 audit (Statement on Auditing Standards No. 70).

SSAE 16 is also known as a SOC 1 (Service Organization Control) report.

## Why was the SAS 70 superseded by SSAE 16?

SSAE 16 was implemented in an effort to align the American SAS 70 standard with similar international standards for reporting on controls at service organizations, such as ISAE (International Standard on Assurance Engagements) 3402.

## What is a "service organization"?

A service organization is a company (i.e., vendor) that provides services to another company. The following are common "service organizations" for which a SSAE 16 examination would be appropriate:

- Payroll and Billing services
- Claims handling
- Credit processors
- Clearing houses
- Investment advisors
- ASP's (Application Service Providers)
- Data centers/Co-locations
- Saas (software as a service) / ASP (application service provider)
- Trustkeeping/custody services
- Cloud computing

All of these companies have one thing in common: they are all providing some type of outsourcing service and often handle sensitive or private data and potentially perform transactions with this data.

## How much does a SSAE 16 examination cost?

The cost to perform a SSAE 16 examination depends on several factors: the type of report (1 or 2), the scope of the report, the number of controls, and the number of locations, among others. Once you contact us, and we become familiar with the scope and circumstances surrounding the examination, we at Reznick Group can usually provide a quote fairly quickly.

## Will an organization suffer from business disruption during the examination process?

Many organizations express concern over the time and resources needed to conduct a SSAE 16 examination, particularly when the scope includes observing and ultimately testing a large number of controls throughout many areas of an organization. Reznick Group is sensitive to these concerns. We

employ a time-tested process and experienced SSAE 16 advisors who work to conduct all SSAE 16 engagements with efficiency and effectiveness. We schedule the phases of the examination to accommodate your employees and your time. We also work with you to set a mutually agreed-upon schedule to achieve your objectives.

## Is SSAE 16 applicable to all types of service organizations?

No. It is applicable only if the service provided is part of the organization's *information system*. A service organization's services are part of an organization's information system if they affect any of the following:

- The classes of transactions in the entity's operations that are significant to the entity's financial statements
- The procedures, both automated and manual, by which the entity's transactions are initiated, authorized, recorded, processed, and reported from their occurrence to their inclusion in the financial statements
- The related accounting records, whether electronic or manual, supporting information, and specific accounts in the financial statements involved in initiating, authorizing, recording, processing and reporting the entity's transactions
- How the entity's information system captures other events and conditions that are significant to the financial statements
- The financial reporting process used to prepare the entity's financial statements, including significant accounting estimates and disclosures

## Why are my clients requesting that I obtain a SSAE 16 (formerly SAS 70)?

Many companies use service organizations to accomplish tasks that affect the company's financial statements. Service organizations provide services that range from performing a specific task under the direction of a company to replacing entire business units or functions of a company. Over time, there has been a significant increase in the use of service organizations. Because many of the functions performed by service organizations affect an entity's financial statements, auditors of financial statements may need to obtain information about those services, the related service organization controls, and their effects on an entity's financial statements. Your clients are likely requesting that you obtain a SSAE 16 examination because your actions as their third party service provider could potentially affect their bottom line!

## What are the benefits of a SSAE 16 examination?

Completion of a SSAE 16 examination can provide your company with a competitive advantage in your marketplace. It illustrates to your clients that internal controls within your organization are in place and working as designed. This can provide your client with confidence that their data and information is safe in your environment.

## Who will use a SSAE 16 examination report?

Historically, a SSAE 16 / SAS 70 report was used to communicate findings on internal control to your clients' auditor. However, this is changing dramatically. Service organizations are now using these reports to market themselves and differentiate their respective product offerings to their clients.

## Since SSAE 16 is a United States (U.S.) standard, what if I'm outside the United States?

The SSAE 16 is a U.S. standard. However, there are comparable standards in other countries. There is also a comprehensive international standard, ISAE (International Standard on Assurance Engagements) 3402, which was designed as a global assurance standard for third party reporting. The intent of the global standard is to converge existing country specific standards (e.g. SSAE 16 in the U.S.) into one common reporting standard.

## Are their different types of SSAE 16 reports?

Yes. There is a Type I and a Type II report:

- A Type I report is issued for a particular date. It states that the control objectives are designed and operating effectively as of that date. For example, a CPA firm would examine a company's controls on July 1, xxxx and state that the supporting controls are suitably designed to achieve the objectives at that point in time.
- A Type II report is issued for a period of time. It states that the control objectives are in operation as of that time period and that the supporting controls are suitably designed to achieve the objectives. It also states the controls that were tested were operating with sufficient effectiveness to provide reasonable assurance that control objectives were achieved during the specified period (for example: January 1, xxxx – June 30, xxxx).

## Are SSAE 16 examinations new?

In name, yes. SSAE 16 examinations became effective on June 15, 2011. However, their predecessor, SAS 70, had been conducted since 1992 up until SSAE 16 took its place. The demand for these examinations (SAS 70, and now SSAE 16) has been spurred on by the Sarbanes-Oxley Act of 2002, and the overall increasing complexity of the IT environment. The current economic climate has had a significant impact on the implementation.

## How long is a SSAE 16 report valid?

SSAE 16 Type I and Type II reports do not technically expire. However, your client's auditor may or may not choose to rely on the report, based on the amount of time that has passed since it was issued.