



# BUSINRSS RISK ADVISORY SERVICES

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## IIA- North Jersey Chapter

What Internal Audit Needs to Know  
About The Risks of Outsourcing and  
the Role of SAS 70 Reports

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CERTIFIED PUBLIC ACCOUNTANTS  
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## TOPICS TO BE DISCUSSED

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- Participant Expectations
- SAS 70 Overview
- Authoritative Guidance
- Usefulness of SAS 70 Reports
- Limitations of SAS 70 Reports
- Type of SAS 70 Reports and Opinions
- Q&A



## SAS 70 Overview

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- SAS 70 report is an examination of a description of internal controls provided by a service organization that may be relevant to a user organization's internal control as it relates to an audit of financial statements for the purpose of expressing opinions on: fair presentation of the description of controls; suitability of the design of controls; and, in certain instances, operating effectiveness of the controls.



## Authoritative Guidance

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- AU 324 -Guidance on engagements to report on the processing of transactions by a service organization is included in AU 324, "Service Organizations."
- AAG-SRV -We also apply the relevant guidance in the AICPA Audit Guide on Service Organizations: Applying SAS 70



## Usefulness of SAS 70 Reports

- Deliverable for companies that perform vendor risk management activities
- Aid in the planning and testing for an internal or external audit
- May reduce the amount of testing for shared service organizations (internal and external)
- May describe and test both ITGC and application (process) controls
- Aids the IA to the nature, timing and extent of compliance (attribute) and substantive (tests of details) tests
- Assist with the execution of a reliance approach with the external auditor



## Limitations of SAS 70 Reports

- The SAS 70 Report does not eliminate the need for planning of an audit entity by IA—the SAS 70 may assist with the planning effort
- The SAS 70 Report does not eliminate the need for testing by IA—the SAS 70 may reduce the amount of testing by IA
- The SAS 70 does not test “end user control considerations”—nor does the report list all relevant end user considerations
- The SAS 70 may not be “evergreen” and align with the user organization’s year end
- The SAS 70 Report may not be available timely and thus not relevant to IA



## Types of SAS 70 Reports

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- There are two types of SAS 70 reports that may be issued:
  - A report on controls placed in operation (referred to as a "Type I" report)
  - A report on controls placed in operation and tests of operating effectiveness (referred to as a "Type II" report).
- The type of SAS 70 report to be issued and, therefore, the type of SAS 70 engagement to be performed is usually determined by the service organization.



## Key SAS 70 Type I Report

- service auditor's report on a service organization's description of the controls that may be relevant to a user organization's internal controls, whether such controls were suitably designed to achieve specified control objectives, and whether such controls had been placed in operation as of a specific date. Such reports may be useful in providing a user auditor with an understanding of the controls necessary to plan the audit and design effective tests of controls and substantive tests at the user organization. The report is not intended to provide the user auditor with a basis for reducing his or her assessments of control risk below the maximum



## Key SAS 70 Type II Report

- A service auditor's report on a service organization's description of the controls that may be relevant to a user organization's internal controls, whether such controls were suitably designed to achieve specified control objectives, and whether such controls had been placed in operation as of a specific date. The report also describes tests of controls and the results of the tests. The control testing results are in the form of an opinion as to whether the controls operated with sufficient effectiveness to provide reasonable, but not absolute, assurance that the related control objectives were achieved during the period specified.
- Such reports are useful in providing the user auditor with an understanding of the controls necessary to plan the audit and may provide user auditors with a basis for reducing their assessments of control risk below the maximum



## Types of SAS 70 Opinions

- If the description of controls appropriately address management's representations, and the controls are suitably designed to achieve control objectives, and controls are operating effectively for a period of time, then an **unqualified opinion** is rendered.
- If the description of controls does not appropriately address management's representations, we discuss the matter with management of the service organization and ask management to resolve the issue by amending their description and/or correcting identified design issues. If management does not resolve the issue appropriately, a modified (i.e., **qualified or adverse**) opinion.



## SAS 70 Reporting

- If the service auditor determines that controls are not suitably designed to achieve specified control objectives, we discuss the situation with management and modify our report with an **explanatory paragraph** of the service auditor's report *preceding the paragraph expressing an opinion on suitability of design*.
- In all cases, a qualification on the design of the controls also results in a qualification of the operating effectiveness of the controls; thus, we also **qualify our opinion** on operating effectiveness of the controls



## SAS 70 Reporting

- If the service auditor determines that controls are not suitably designed to achieve multiple control objectives an **adverse opinion** may be appropriate. The IA needs to consider the impact.
- The service auditor may conclude that specified control objectives have been achieved even if exceptions have been noted and reported. Then a modified report with *an explanatory paragraph of the service auditor's report preceding the paragraph expressing an opinion on operating effectiveness.*



## SAS 70 Reporting

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- If the service auditor determines that controls are not operating with sufficient effectiveness to achieve multiple control objectives, an adverse opinion may be appropriate.



## SAS 70 Reporting

- The service auditor considers two types of information about **subsequent events** that may come to our attention: [AU 324.57]
  - Events that provide additional information about conditions that existed during the period covered by the service auditor's report.
  - Events that provide information about conditions that arose subsequent to the period covered by the service auditor's report that are of such a nature and significance that their disclosure is necessary to prevent users from being misled.
- The service auditor also inquires of management as to whether they are aware of any subsequent events through the date of the report that would have a significant effect on user organizations, and obtain a representation from management regarding subsequent events. [AU 324.60]



# SAS 70 Workshop- Quality Assurance

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Q & A

Than You!

