



Preparing for the New SSAE 16 Standard

WHITE PAPER

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Background

June 15, 2011, marked the implementation of the new Statement on Standard for Attestation Engagements No. 16, Reporting on Controls at a Service Organization (SSAE 16). This replaced the long relied-upon SAS 70 service auditors' reports. The much publicized Enron scandal brought about sweeping reform through the Sarbanes-Oxley Act, and a second wave of change to the regulatory environment occurred through the Dodd-Frank Act, signed into law by President Barack Obama on July 21, 2010. Though the new SSAE 16 standard does not create as drastic an overhaul as these two acts, it is still important to recognize change as it occurs. Banks and financial institutions migrating to the new SSAE 16 standard is part of an overall trend towards providing greater transparency.

Preparing for the New SSAE 16 Standard

Now that SSAE 16 is here, how do you make sure your bank is prepared for change?

- 1) **Consult your local accounting professional or CPA firm.** That's where you'll find the experience, background, and resources to answer questions and guide you through the maze of change.
- 2) **Determine whether or not your bank needs to obtain an SSAE 16, ISAE 3402 (International Standard for Assurance Engagements), or another assurance report.** This will depend on whether the bank uses the service of a third party that has a direct or indirect effect on the financial statements. The typical litmus test is that, if your bank was required to obtain a SAS 70 report in the past, it will probably now need a SSAE 16 or ISAE 3402 report.

For example, banks that use service organizations such as Fiserv, which provides transaction processing and integrated information management systems, or ADP, which specializes in data-processing and payroll services, will need to request these new reports from its service providers. Whether banks should request a SSAE 16 report or ISAE 3402 report from a service organization will depend on whether business is conducted overseas or not. SSAE 16 is a U.S. standard, while ISAE 3402 is the similar international standard.

Please note that SSAE 16 is more narrowly focused than many previous SAS 70 reports. Although SAS 70 reports were often used in broader encompassing situations, SSAE 16 is squarely focused on internal control over financial reporting. In addition to the SSAE 16 report (sometimes referred to as a Service Organization Controls (or SOC 1 report), a SOC 2 report replaces a SAS 70 report when controls being reported on do not relate primarily to financial activities, like security, availability, processing integrity, confidentiality, or privacy. Accordingly, there may be situations where in the past your bank received a SAS 70 report and now it may receive one of these other types of assurance reports.

- 3) **Know what your service organization's responsibilities are.** SSAE 16 requires that management of the service organization make a *written* assertion to be included in the Service Auditor's Report. This is one of the major changes *in the report itself*. In addition, management must provide a reasonable basis for this assertion. It can be based on existing systems in place or on specific testing performed such as regulatory exams, self-assessment, or internal audit

function. The new Service Auditor's Report includes the auditor's opinion on the elements of fairness of presentation and design of controls (for a Type I report) and effectiveness of controls (i.e., testing of controls) for the entire period (for a Type II report). In contrast to the previous SAS 70 audit standard, SSAE 16 attestation standards emphasize management's responsibilities and accountability.

- 4) **Recognize these minor changes.** In cases where the service organization outsources activities to a subservice organization, if testing of the subservice organization's controls is included in the SSAE 16 report, a representation from the subservice organization must also be made. In many cases, however, the subservice organization's controls will no longer be tested in the report. In this case, a separate SSAE 16 report may need to be obtained from the service organization's subservice organization. A copy of these subservice organization reports may also be acquired directly from the service provider.

Despite minor changes, the purpose of allowing banks to rely on the service organization's controls for financial reporting and many of the core elements of the report remain essentially the same. Also, as in the past, the bank will need to ensure it has in place any complementary user controls specified in the report.

- 5) **If you will require any of these reports, check with your service organization to determine (a) which reports it will be providing, (b) when they will be available, and (c) whether you will need to obtain a report from their subservice organizations.** Also, it is a good idea to ensure that your legal documents, such as references to the new report in contracts, are up to date.
- 6) **Be prepared.** It is important to understand and plan ahead for these changes. Identify key elements and any changes that are applicable. Planning now allows you to avoid issues down the road.

How Reznick Group Can Help

Reznick Group's banking and financial services practice professionals provide business process consulting services that can help your institution enhance regulatory compliance and operate more strategically and efficiently. Reznick Group provides SSAE 16/SOC 1 service organization control examinations that are performed by Certified Information Systems Auditors (CISA) with years of relevant IT and audit experience.

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