



In the Face of Change: The Migration from SAS 70

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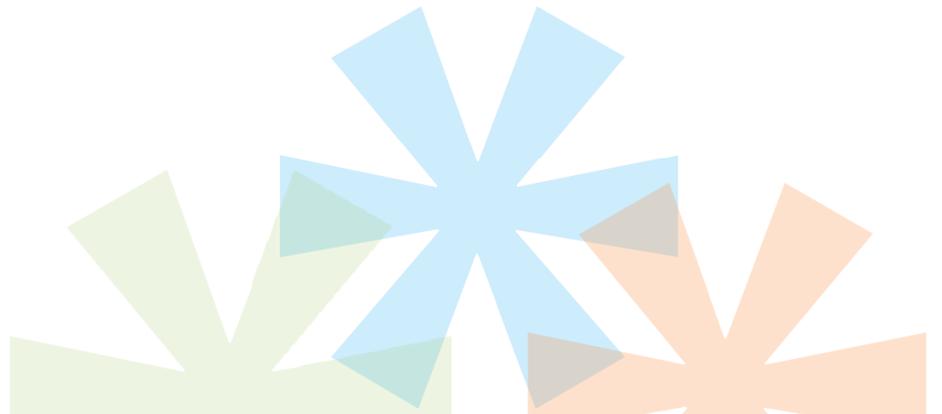
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After many years of using the SAS 70 as the industry standard for service organizations, especially for those in financial services, it would appear as though yet another change is en route. Specifically, ISAE 3402 seems to be at the forefront, as it represents the international replacement for SAS 70 and can span organizations in multiple jurisdictions. However, SSAE 16 stands as a strong American alternative to ISAE 3402, and with such a large proportion of financial service organizations either based in the US or having US clients, this standard has its own merits. As this changeover begins to trickle through businesses as they relate to the alternative investment industry, it is imperative that end users have a thorough understanding of what the new standards represent and how they differ from the existing framework. The focus of this discussion will be on ISAE 3402 given our international presence (at least relative to the United States), though almost undoubtedly SSAE 16 will be equally synonymous.

Why the Change?

Certainly, there are many reasons for this turn of events, some of which warrant attention. One comes from strictly a durational perspective: the original SAS 70 is now almost twenty years old and given how service organizations have evolved since the early 1990's a revision was long overdue. However, beyond this, globalization is perhaps the most important factor driving these changes. Service organizations today, certainly more than when the original SAS 70 was crafted, utilize multiple jurisdictions for their operations. Conforming to standards on a country-by-country basis is time-consuming and expensive and calls for change have only become louder over time. The use of multiple reports to cover multiple jurisdictions, but yet all for the same company, has created confusion and inconsistency among end users. In addition, the same end users of the original SAS 70 report are themselves based in multiple jurisdictions around the globe, furthering the need and desire for a global benchmark.

Also, the time for a common international standard was at hand for the industry. With heightened emphasis on the International Financial Reporting Standards (IFRS), it was imperative that there was a collective global standard that was more closely aligned with IFRS. This alignment will make it easier to measure service organizations around the globe against one another, since they will be measured against the same yardstick. Since the traditional SAS 70 reports are prepared for the end user in any case, it stands to reason that they might as well be made as user-friendly as possible.



Similarities and Differences

Many of the basic tenets of the current SAS 70 framework will remain in some form under ISAE 3402. For instance, there will be both a Type I and Type II certification in ISAE 3402 with the same general differences between the two reports as currently seen in the SAS 70. Also, as with the current structure, a description of the controls used by a service organization will continue to be prepared by the service organization; it is these controls that will be tested by the external auditor. As we all know however, the devil is in the details, and it is the anticipated differences between SAS 70 and ISAE 3402 that are the most interesting and applicable to the current examination.

One significant difference is that the current SAS 70 is limited to reporting upon the controls of an organization and whether or not the organization adheres to those documented procedures. However, it is expected that ISAE 3402 will extend beyond this basic reporting to include areas such as regulatory facets, compliance procedures, business continuity/disaster recovery planning, and a host of other areas. Also, another notable difference will be with respect to the auditor opinion. Under SAS 70, the auditor states an opinion based on the subject matter and the result of their testing. However, ISAE 3402 will allow for not only an auditor opinion, but the management of the service organization will provide a formal assertion confirming its overarching accountability for the procedures and controls in the report.

Another interesting area of change surrounds the user of internal audit within the service organization. Under the existing SAS 70 standard, any work that is performed within the service organization by an applicable internal audit group to support the opinion of the auditor is not disclosed. However, ISAE 3402 changes this entirely; such internal audit work as performed within the service organization will be included, along with a description of the internal audit work and the procedures associated with the tasks performed.

Impact on Canadian Standards

In Canada, the Canadian Institute of Chartered Accountants (CICA) has item CICA 5970, which effectively is the Canadian equivalent to SAS 70. With respect to ISAE 3402, standard setting organizations in each country are being encouraged to do one of two things. First, they could outright adopt ISAE 3402 as a replacement for their current standards, or if no current standard exists, enact ISAE 3402 as the new benchmark. Alternatively, they could modify their current standard to align more closely with ISAE 3402. Which route the CICA chooses to go remains less than certain, but more than likely change will eventually come.

As mentioned earlier, in the United States the move is towards SSAE 16, which is seen as a direct replacement to the current SAS 70. With such a large proportion of alternative investment managers based in the United States, and such close ties between Canada and the United States, it is likely that this standard will become increasingly commonplace going forward, perhaps even in lieu of ISAE 3402 for North American users. However, SSAE 16 has a very pronounced degree of overlap with ISAE 3402 and hence any changes made in Canada to CICA 5970 will likely be in line with both SSAE 16 and ISAE 3402.

The Impact to Service Organizations

With different standards across different jurisdictions, which framework is most appropriate for a given service organization? It is quite the question and, of course, a generalization cannot be made since each company is different. The choice of which standard to adopt would be based on a multitude of factors, including the service organization's operations structure, the domicile of its offices, the geographic location of its clients, its subservice organizations, etc. However, some general ideas can be presented for discussion and consideration.

First, and most profoundly, who would be the end users of any report of this nature? If the bulk of your end users are international customers, then ISAE 3402 might make the most sense. On the other hand, if a firm's clients are 100% US-based, then perhaps the SSAE 16 standard is more appropriate, since the end user is likely to be more familiar with that framework. Furthermore, one must look beyond an existing customer base towards the future. For instance, a particular service organization may have a heavy concentration of American clients, but is looking to expand into international markets. Having the ISAE 3402 standards in place demonstrates to potential clients that the firm is aligned with international standards and has an understanding of the global needs of its end users.

For sufficiently large organizations with a presence in both the US and abroad, the obvious choice would be a dual opinion from a reputable audit firm based on both the ISAE 3402 and SSAE 16 standards. This would be especially advantageous for organizations with operations in multiple jurisdictions. As mentioned, the need to conform with many national standards can be burdensome, so the use of these two standards should suit the needs of almost any end user.

Conclusion

After becoming familiar and comfortable with the SAS 70 as the benchmark for financial services organizations, it appears as though change is forthcoming. The specific contenders at this stage appear to be ISAE 3402 (the international standard) and SSAE 16 (the new American standard). The rationale for change is firmly rooted in the heightened and ever-evolving globalization of business with respect to service organizations. As the operational framework of businesses has changed over the last twenty years, the need for a refreshed standard has come to the forefront. Fortunately, regardless of which standard one investigates, there is a great deal of overlap with the current SAS 70 framework; the major differences are primarily with respect to the use of internal audit, the inclusion of a management assertion on the control environment, and the scope upon which the report rests. In Canada, we are likely to see some domestic change as well, though it is less than clear at this stage what that change will be and how (if at all) it will differ from the US and international standards. In any event, service organizations will need to take a diligent look at the current and prospective end users of their current SAS 70 and think about which report will best suit their needs, though the use of a dual opinion is certainly an option and highly likely for larger organizations spanning multiple jurisdictions. *