

SAS 70 Services

In today's business world, global competition and increasing pressure to improve performance, reduce costs and enhance shareholder value are driving many organisations to outsource more and more IT and increasingly business process related functions.

In this environment, in addition to outsourcing traditional IT functions such as IT infrastructure and applications management, corporations also commonly consider outsourcing general business processes, such as human resources, accounting, finance, procurement and call centres. While outsourcing these processes can result in cost and efficiency savings, organisations cannot outsource the risk related to these processes.

The current regulatory and compliance environment demands companies to provide assurance on the effectiveness of their controls, whether they be internal or outsourced. Therefore, a new control environment needs to be designed to meet the inevitable changes in the risk posture around these outsourced functions.

Statement of Auditing Standards No. 70

One of the most effective ways for a service organisation and a user of such services to understand and assess the organisation's internal controls is through a Statement of Auditing Standards (SAS) No. 70 report, a Service Auditor's Report. This report is designed to provide information about the controls in place over the processing of transactions by a service organisation.

The SAS 70 was designed by the American Institute of Certified Public Accountants (AICPA) to enable service organisations to obtain a single report

to accommodate all or most of its user organisations' audit requirements.

Auditors engaged by a service organisation for this purpose can issue a Type I report or Type II report to the service organisation.

KPMG SAS 70 Services

KPMG China is accredited to provide such SAS 70 reports on service provider controls for use by our clients and their auditors under the guidance of The American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards (SAS) No. 70.

KPMG provides both types of reports on a service organisation:

Type 1: Report on controls placed in operation

The Type 1 report is intended to provide user auditors with information about controls at a service organisation that may be relevant to a user organisation's internal control as it relates to an audit of its financial statements.

Type 2: Report on controls placed in operation and tests of operating effectiveness

The Type 2 report is also intended to provide user auditors with information about controls at a service organisation that may be relevant to a user organisation's internal control as it relates to an audit of its financial statements. In addition, in a Type 2 engagement, KPMG professionals can perform tests of specific controls to evaluate their operating effectiveness in achieving specified control objectives.

SAS 70 to assist compliance with PCAOB # 2 and 3 requirements for Sarbanes-Oxley

"Discussions between service providers and their clients have never been more important, given the relationship of Sarbanes-Oxley sections 302 and 404 to a SAS 70 Type II report"

Gary H. Matuszak – KPMG Global Service Line Lead

KPMG Risk Advisory Services

Risk Advisory Services assists clients to focus on fundamental business issues that help increase revenue, control costs, and identify and manage risks, including the risks inherent in the technology systems used to support business objectives. Risk Advisory Services provides clients with information to empower them to meet their strategic and financial goals.

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Our approach

KPMG's network of member firms have established global methodologies and templates to assess the in-scope control areas of the outsourced activities, thus, adding a valuable perspective to the operational benefits of outsourcing.

The fieldwork portion of the attestation covers several stages:

- Determining the fairness of the presentation of controls
- Testing the design of the controls
- Testing the operating effectiveness of the controls (Type II only)
- Evaluating the results.

We can also perform a diagnostic review of the outsourced activities to allow for the early identification and remediation of issues before the SAS 70 audit.

Benefits

Performing a SAS 70 audit can provide benefits to both the service provider and the buyer of outsourced services. The benefits of a SAS 70 examination include:

To the user organisation:

- Independent assurance on the design and effectiveness of the controls at the service provider
- Greater assurance on the accuracy of the financial statements
- Address any gaps in the certification of the effectiveness of internal controls over financial reporting
- More comfort with operations and service delivery issues.

To the service provider:

- Identification of improvements in control practices
- Greater chance of retaining public company clients and attracting new ones
- One clear and independent audit process that can satisfy most audit needs
- Standardisation of processes among multiple sites

- Less business disruption resulting from user organisations sending individual audit teams.

KPMG proposed approach:



SAS 70 scope and benefits:



SAS 70 TYPE I and TYPE II

A Type I report describes the design of a service organisation's controls at a specific point in time.

In a Type I report, the service auditor will express an opinion on (1) whether the service organisation's description of its controls presents fairly, in all material respects, the relevant aspects of the service organisation's controls that had been placed in operation as of a specific date and (2) whether the controls were suitably designed to achieve specified control objectives.

In a Type II report, the service auditor will express an opinion on the two issues noted above for a Type I report as well as whether the controls that were tested were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that the control objectives were achieved during the period specified.

A Type II report includes not only the service organisation's description of controls but also detailed testing of the service organisation's controls over a period of time, generally six to 12 months.