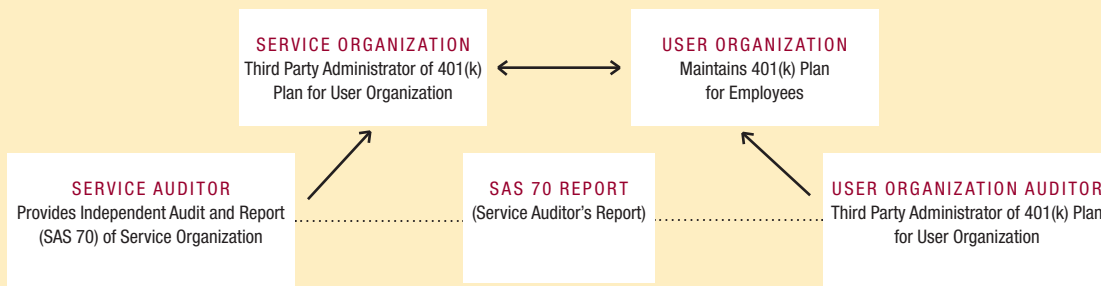


SAS 70 AUDITS

WHAT IS A SAS 70?

Statement on Auditing Standards (SAS) No. 70, Services Organizations, is the authoritative guidance that allows service organizations to disclose their control activities and processes to their customers and their customers' auditors in a uniform reporting format. A SAS 70 audit or service auditor's examination signifies that a service organization has had its control objectives and control activities examined by an independent accounting and auditing firm. While not universally required, a SAS 70 examination is often required because it represents that a service organization has been through an in-depth audit of their control activities, including controls over information technology and related processes. Service organizations or service providers must demonstrate that they have adequate controls and safeguards when they host or process data belonging to their customers. Additionally, the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 mandates SAS 70 audit reports for service organizations serving publicly traded companies. The need for SAS 70 audits is rapidly increasing as all audit procedures are looking more closely at risk and internal control.



WHO CAN PERFORM A SAS 70 AUDIT?

A SAS 70 Audit can only be performed by an independent Certified Public Accountant or firm. CPA firms that perform SAS 70 audits must adhere to specific professional standards established by the American Institute of Certified Public Accountants (AICPA). Member firms of the AICPA are required to follow specific guidance related to planning, execution and supervision of the audit procedures. In addition, member firms are required to undergo a peer review to ensure that the firm's audits are conducted in accordance with generally accepted auditing standards.

The CPA firm, of course, may employ non-CPA professionals that have relevant information technology and security skills to participate in a SAS 70 engagement. However, the final report must be reviewed and issued by a CPA. This is particularly important if a user organization's auditors plan to rely on the results of service auditor's tests of operating effectiveness.

WHY SHOULD APPLE GROWTH PARTNERS PERFORM YOUR SAS 70 AUDIT?

In addition to the technical requirements, the audit team of Apple Growth Partners brings unique qualifications to every project. In addition to our audit experience, we have extensive plan administration experience and the technology resources of our affiliate, Lean Back-Office, an IT consulting company. Every client benefits from:

- *our experience performing SAS 70 audits*
- *an understanding of the practical aspects of the administration of qualified plans, health and welfare plans, and financial services*
- *skilled audit professionals that understand information technology controls and processes*
- *a cost effective system for performing SAS 70 audits based on best practices*

SERVICE AUDITORS REPORTS.

SAS 70 provides guidance that enables an independent auditor (“service auditor”) to issue an opinion on a service organization’s description of controls through a Service Auditor’s Report.

TYPE I REPORT

Describes the service organization’s description of controls at a specific point in time. The service auditor expresses an opinion on:

1. whether the service organization’s description of its controls presents fairly, in all material respects, the relevant aspects of the service organization’s controls that have been placed in operation as of a specific date.
2. Whether the controls were suitably designed to achieve specified control objectives.

TYPE II REPORT

Includes the service organization’s description of controls and detailed testing of the service organization’s controls over a minimum of a six month period. The service auditor expresses an opinion on:

1. opinions 1 and 2 from Type I Report.
2. whether the controls tested were operating with sufficient effectiveness to provide reasonable, but not absolute, assurance that control objectives were achieved during the period specified.

REPORT CONTENTS

1. Independent service auditor’s report (i.e. opinion).
2. Service organization’s description of controls.
3. Information provided by the independent service auditor; includes a description of the service auditor’s tests of operating effectiveness and the test results.
4. Other information provided by the service organization (e.g. a glossary of terms).

TYPE I REPORT

- Included
- Included
- Optional
- Optional

TYPE II REPORT

- Included
- Included
- Included
- Optional

BENEFITS TO THE SERVICE ORGANIZATION.

Service organizations receive significant value from having a SAS 70 engagement performed, including:

- differentiates the service organization from its peers by demonstrating the establishment of effectively designed control objectives and activities
- assists a service organization in building trust with its user organizations (i.e. customers)
- forces the service organization to document all policies and procedures
 - establishes a training procedure for new hires
 - often the process results in identification of improvement opportunities in many operational areas
- establishes a baseline from which future changes/enhancements may be measured
- reduces the number of times a service organization may have to meet with user organization auditors
- performance of audits by control-oriented professionals who have experience in accounting, auditing and information security

BENEFITS TO THE USER ORGANIZATION.

User organizations, generally the independent auditor, that obtain a SAS 70 report from their organization(s) receive valuable information regarding the service organization’s controls and the effectiveness of those controls. In a Type II report, the user organization receives a detailed description of the service organization’s controls and an independent assessment of whether the controls were placed in operation, suitably designed and operating effectively. The SAS 70 report also clearly delineates the controls for which the user organization is responsible.

For more information about SAS 70 and Apple Growth Partners, contact Sue Peirce, speirce@applegrowth.com or 330.867.7350.