

▶ AN OVERVIEW OF
SAS 70



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▶ AN OVERVIEW OF SAS 70

▶ WHO IS REQUIRED TO HAVE A SAS 70 REPORT?

Service providers who serve public and private companies by providing a service that materially impacts the company's financial statements will be required by their customers to provide a Type II SAS 70 Report. Such services could include: payroll services, systems programming, data storage, computer support, medical claims processing, colocation and web hosting, among others.

Audit standards require that when the service organization's services are a part of the company's internal control over financial reporting, management should consider the activities of the service organization in making its assessment of internal control over financial reporting, and the external auditor must consider the activities of the service organization in determining the evidence required to support his or her opinion.

▶ BENEFITS OF A SAS 70

Service organizations receive significant value from having a SAS 70 engagement performed. A SAS 70 Report with an unqualified opinion that is issued by an independent accounting firm differentiates the service organization from its competitors by demonstrating the establishment of effectively designed control objectives and control activities.

A SAS Report also helps a service organization build trust and loyalty with its customers. Conversely, without the ability to timely provide a SAS 70 Report to a customer, the service provider may lose the customer. The company has no alternative but to obtain the SAS 70 Report, and is likely to change service providers in order to meet this requirement.

Additionally, without a current SAS 70 Report, a service organization may have to entertain multiple audit requests from its customers and their respective auditors. Multiple visits from user auditors can place a strain on the service organization's resources. A SAS 70 Report ensures that all customers and their auditors have access to the same information and in most cases this will satisfy the user auditor's requirements.

Additionally, a SAS 70 engagement allows a service organization to have its control policies and procedures evaluated and tested by an independent party. Very often this process results in the identification of opportunities for improvement in many operational areas.

▶ REQUIREMENT UNDER THE SARBANES-OXLEY ACT OF 2002, SECTION 404

Section 404 of Sarbanes-Oxley requires public companies to include a report by management on its assessment of the company's internal controls over financial reporting in each annual report. Each public company's auditor must attest to and report on management's assessment of the company's internal controls and this opinion must also be included in each annual report.

If a public company (user organization) utilizes an external service organization to perform activities that significantly impact a company's financial statements, a Type II SAS 70 report is required. The SAS 70 report should be performed by an independent auditor (service auditor) and provided to the service organization, which in turn, provides the report to the user company's management and auditor.

A SAS 70 Report is the authoritative guidance that allows service organizations to disclose their control activities and processes to customers and their customers' auditors in a uniform reporting format. Service auditors are required to follow the AICPA's standards for fieldwork, quality control, and reporting. SAS 70 is not a pre-determined set of control objectives or control activities that the service organization must achieve, rather, it is a report that signifies that the service organization's control objectives and activities have been examined by an independent accounting and auditing firm.

There are two types of SAS 70 reports:

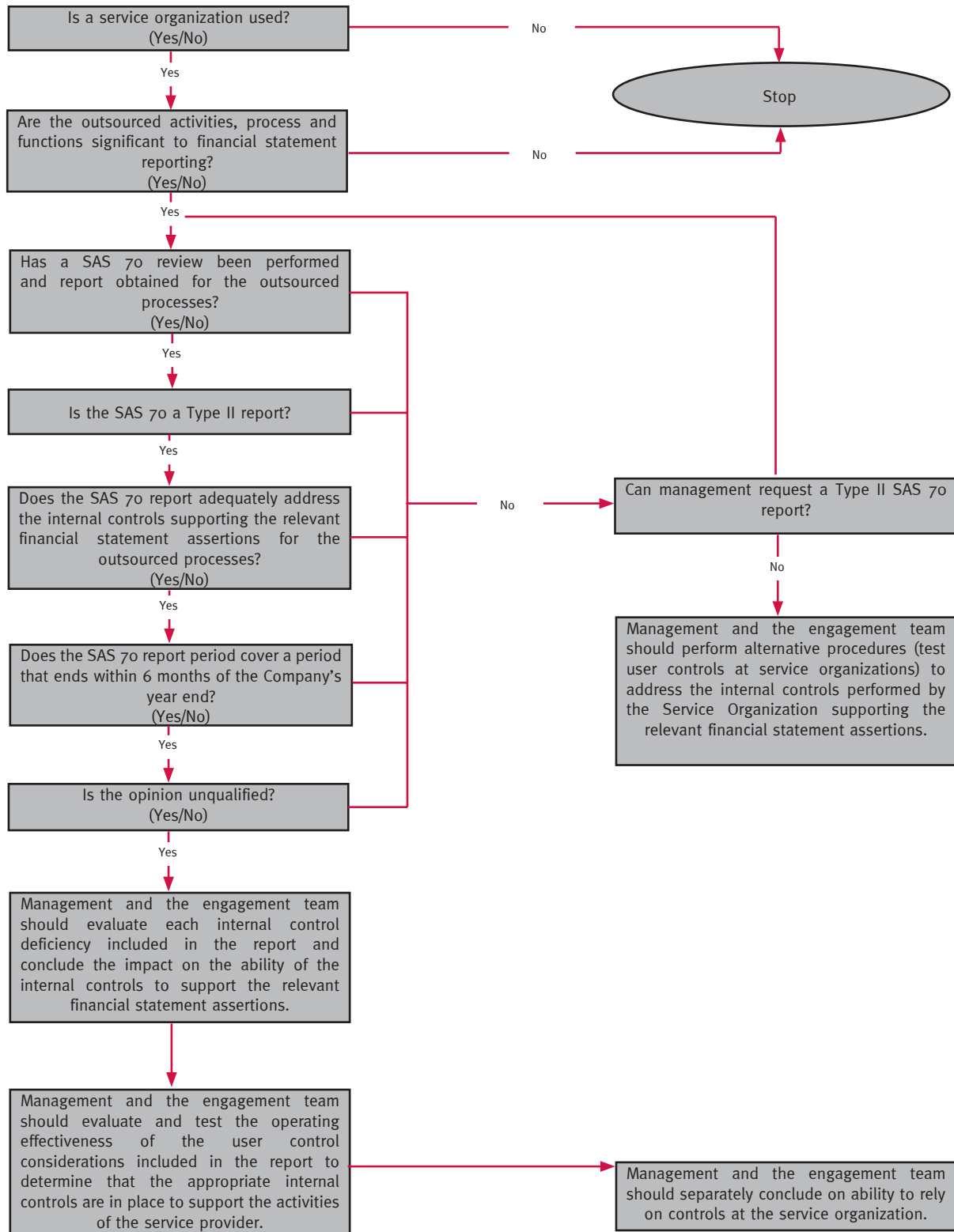
Type 1 Report. In a Type I report, the service auditor will express an opinion on (1) whether the service organization's description of its controls presents fairly, in all material respects, the relevant aspects of the service organization's controls that had been placed in operation as of a specific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

Type II Report. In a Type II report, the service auditor will express an opinion on the same items noted above in a Type I report, and (3) 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 not only includes the service organization's description of controls, but also includes detailed testing of the service organization's controls over a minimum six month period.

KBA Group can help you get this covered. Our risk advisory team can assess your environment and give you an estimate of the time and cost necessary to complete your Type II SAS 70 Report.

► SAS 70 DECISION TREE

This decision tree can be used to determine how to evaluate a service organization relationship and the relevance of a service auditor report to both management and the external auditor.



▶ KEY DEFINITIONS

User organization. The entity whose financial statements are being audited and which has engaged a service organization.

User auditor. The auditor who reports on the financial statements and internal controls of the user organization.

Service organization. The entity (or segment of an entity) that provides services to a user organization that are part of the user organization's information system.

Service auditor. The auditor who reports on controls of a service organization that may be relevant to a user organization internal control.

Type I Report. Reports on controls placed in operation. Expresses an opinion on the description of the controls at the service organization as of a specified date.

Type II Report. Reports on controls placed in operation and test of operating effectiveness. Provides description of the tests of controls and results of those tests of operating effectiveness performed by the service auditor, as well as the service auditor's opinion on whether the controls that were tested were operating effectively during the specified period (generally not less than a six month period).

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▶ RISK ADVISORY SERVICES

Since 1982, KBA Group has helped private and public companies interpret and implement solutions relating to a rapidly changing regulatory environment. We work closely with our clients to focus on the issues; develop a strategy to implement, manage and execute a plan; to communicate the plan; and to monitor and measure results. KBA's Risk Advisory Services include:

▶ SARBANES-OXLEY SECTION 404 SERVICES

Maintaining compliance with Section 404 is an ongoing process for Accelerated Filers and Non-Accelerated Filers. For companies that are still going through their internal control implementation process, an aggressive effort is essential to complete the entire evaluation process and provide sufficient time for their independent auditors to complete an audit of internal controls. For Accelerated Filers, the issue is to address ongoing remediation of known deficiencies or weaknesses and/or maintenance of the internal control environment. Let KBA Group assist with this process: We are available to:

- ▶ Complete full Section 404 implementations
- ▶ Assess and improve internal control structures and processes
- ▶ Help reduce the chance of material weaknesses
- ▶ Positively impact the timeline and costs for management and external auditor testing and assertions
- ▶ Document your structure and processes
- ▶ Assist in management reporting and testing
- ▶ Assist your organization to gain self-sufficiency in meeting 404 requirements on an ongoing basis.

▶ SAS 70 REPORTS FOR SERVICE ORGANIZATIONS

Due to the requirements of Sarbanes-Oxley (Section 404) Type I and Type II SAS 70 reviews have increased in importance. Our professionals have been providing audit and related services, including designing, implementing and testing internal controls, throughout their careers and excel in this area. We can help you fulfill your SAS 70 requirements.

▶ INTERNAL AUDIT SERVICES

KBA can provide your company with independent, objective assurance and consulting that adds value and improves your organization's operations. We can help you accomplish your objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Our trained professionals have the skills needed to work closely with the audit committee, management and corporate counsel to create an environment that results in financial reporting that is transparent, consistent, and of high quality.

We view internal auditing as a client-focused, consultative approach to managing risks and recommending solutions. As a proactive function, an internal audit adds value to the organization by questioning what risks are involved in an operation and identifying and implementing the controls that should be in place. KBA can help you create or expand an internal audit function that adds value to your organization.

▶ AUDIT COMMITTEE ADVISORY SERVICES

The demands and responsibilities that are being directed to audit committees are dictating that outside independent advisors be engaged to give direction, provide technical support and even perform investigations for the audit committee directly. KBA has the depth of public company experience to provide audit committees and their individual members with independent technical advice and direction. KBA also has the forensic capabilities to assist with whistle blower investigations and/or other alleged or perceived accounting irregularities.

KBA'S RISK ADVISORY TEAM

Our dedicated team members have hands-on experience having spent their careers with major corporations and international accounting firms. They hold designations as Certified Public Accountant, Certified Internal Auditor, Certified Control Self-Assessment and Certified Information Systems Auditor.

For more information, contact us today.

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BARRY ADAMSON, CPA
PARTNER

▶ PROFESSIONAL EXPERIENCE

Barry has approximately 20 years of diversified accounting, auditing, and general consulting experience working with both public and private companies. Barry has worked extensively throughout his career with public companies and has a high degree of expertise in all forms of public filings including all periodic 34 ACT filings, SB-2s, Form 10s, S-3s and S-8s. Formerly an Audit Manager with KPMG, Barry has experience in a number of industries including distribution, manufacturing, software development, telecommunications, service, technology and construction.

▶ RECENT ENGAGEMENTS

Audit Engagements: Manages numerous audits of both public and privately held companies, including sectors such as wholesale distribution companies and technology and manufacturing entities.

SEC Reporting/IPO: Assisted with Initial Public Offering including completion of the audit and the filing of a registration statement for an Internet based technology company. Resulted in the company completing a \$20,000,000 public offering and being listed on NASDAQ.

Accounting Matters: Assisted various companies in complex accounting matters including stock compensation plan issues, revenue recognition issues, software capitalization questions and other complex equity transactions.

Acquisitions: Assisted Dallas based holding company in corresponding with SEC concerning complex accounting questions relating to acquisition of a large foreign entity. Audited the acquired China based entity, with estimated assets of \$100 million, in conjunction with KBA's Hong Kong affiliate.

▶ EDUCATION

Barry received his Bachelor of Commerce and Bachelor of Accounting degrees, and an Honors in Business Information Systems at the University of Witwatersrand, South Africa.

▶ AFFILIATIONS

Barry is a member of the American Institute of Certified Public Accountants, the Texas Society of Certified Public Accountants, and the Dallas Chapter of the Texas Society of Certified Public Accountants. He also serves on the Sarbanes-Oxley Section 404 Committee for Polaris International, the firm's international affiliation of independent accounting firms. Barry is also an associate member of the National Association of Corporate Directors.



CHRISTOPHER MITCHELL, CIA, CISA, CCSA
PRINCIPAL, RISK ADVISORY SERVICES

► PROFESSIONAL EXPERIENCE

Chris has over 12 years of risk advisory, finance and IT consulting experience. He has held the titles of Internal Audit Director, Senior Program Manager and Managing Consultant at various companies in industries including financial services, telecommunications, software development, manufacturing and government. His practice focuses on assisting clients with 404 implementations, Type I & II SAS 70, risk assessments, leading internal audit teams and making cost-effective recommendations to enhance internal controls, maximize efficiency and minimize exposure to loss and regulatory risk.

► RECENT ENGAGEMENTS

Managed multiple Type II SAS 70 engagements making value added recommendations regarding IT control deficiencies.

Led turn-key Sarbanes-Oxley implementations/ attestation engagements for both the business and IT segments.

Managed multiple Business/ IT risk assessment projects which led to the engineering and re-engineering of key business and IT processes.

Developed and implemented Business/ IT Sarbanes-Oxley training methodology for a major software development company.

Developed and implemented a Business/ IT Gramm Leach-Bliley training methodology for a major software development company.

Trained the CFO and company controllers on the Sarbanes-Oxley methodology (both business and IT functions), which included process flow/ program development, exception monitoring and report development.

► EDUCATION

Chris received his Bachelor of Accounting degree from the University of Texas at San Antonio and his MBA in Information Technology from Touro University. Chris is a CIA (Certified Internal Auditor), a CISA (Certified Internal Systems Auditor) and a CCSA (Certified Control Self-Assessor).

► AFFILIATIONS

Chris is an active member of the local chapter of Institute of Internal Auditors (IIA) and Information Systems Audit and Control Association (ISACA). He is a frequent speaker on issues related to SOX and has recently spoken at the local chapter of the DFW Reporting Group and to the North American Regional meeting of Polaris International. He is an active



STACEY D. GUTSELL, CISA
IT SENIOR MANAGER - RISK ADVISORY SERVICES

▶ PROFESSIONAL EXPERIENCE

Stacey has over 8 years of experience analyzing technology and business risks, and designing and developing applications. She has worked across multiple industries including retail, finance, real estate, healthcare, and fulfillment services. She has been a member of internal audit teams where she has performed operating system, application, and database reviews both before and after implementation projects to ensure data integrity and adequate controls. Stacey's practice focuses on assisting clients with 404 implementations, leading internal audit teams and making cost-effective recommendations to enhance internal controls, maximize efficiency and minimize exposure to loss and regulatory risk.

▶ RECENT ENGAGEMENTS

Planned, coordinated, managed and executed multiple SAS 70 reviews world-wide. Co-developed with the client an understanding of the needs and evaluation criteria of intended users of its SAS 70 report to define scope and control objectives.

Designed and developed assessment approach and detailed implementation plans to help companies move toward Sarbanes-Oxley compliancy. Trained executives and management personnel on the requirements and helped to define/coordinate approach for becoming Sarbanes-Oxley compliant.

Worked with a retail sales and rental company on an IT effectiveness review. Issues in the current environment experienced were related to scalability, performance, cost, and overall effectiveness. The objectives of the assessment were to perform:

- ▶ An assessment of the effectiveness of the information technology (IT) operations and infrastructure.
- ▶ A comparison of Hastings current IT practices against established IT standards, (the Control Objectives for Information and Related Technology (COBIT) Framework, and the Capability Maturity Model (CMM) were chosen to be the industry standards).
- ▶ Industry benchmarking and other objective comparisons, as appropriate and available.

▶ EDUCATION

Stacey graduated from Southern Methodist University with a BBA in Management Information Science (MIS) with a minor in Economics. Stacy is also a Certified Internal Systems Auditor (CISA).