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SSAE 16 (formerly S.A.S. 70)

The Statement on Auditing Standards (SAS) n.. 70 is an **internationally recognized auditing standard developed by the American Institute of Certified Public Accountants (AICPA) specifically for service providers.**

Essentially, such audit standard offers the service providers' customers **a neutral third party validation** that the service provider has **effective internal controls in place.**

There are two types of SSAE 16 audits, both of which offer a report as the primary deliverable. In a Type I audit, the service organization provides a detailed description of internal controls to be examined by the auditor, such as:

- Aspects of the service organization's control, environment; risk, assessment processes; information and communication processes; and monitoring processes that may affect the services provided to user organizations, as it relates to an audit of financial statements;
- Control objectives and related controls; and
- Complementary controls that may be required at user organizations.

The auditor then issues a statement assessing the fairness of that description, as well as an opinion on whether the controls are suitably designed to achieve the objectives included in the description.

A Type II audit takes this an important step beyond. In a Type II audit, the service provider's controls are tested **every six-month** to determine if they are in fact operating effectively. A Type II report includes the same assessment as a Type I report, while also adding a thorough description of the tests applied and their results.

SSAE 16 : What it means for our Customers

SSAE 16 has grown in significance in recent years as companies strive to comply with heightened regulatory requirements. Federal legislation enacted in the wake of corporate accounting scandals and by public concern over the security and privacy of personal information has delineated new rules for the handling and reporting of data.

The Health Insurance Portability and Accountability Act of 1996 (HIPAA), the Gramm-Leach-Bliley Act of 1999, and particularly the **Sarbanes-Oxley Act of 2002 are examples of legislation that have had a strong impact on companies' auditing and reporting processes.**

In addition, the prevalence of outsourcing among today's businesses further drives the need for SSAE 16 auditing. Sarbanes-Oxley defines **corporate responsibility for financial reporting** and specifies in section 404 that a **company's management must issue assessments on the effectiveness of their internal controls and procedures.**

According to an article written by Christopher L. Schellman, co-founder of SAS 70 Solutions, "Many public companies, as part of their respective efforts to achieve compliance under Section 404, discovered that **certain financial reporting controls that they relied upon were actually maintained by outsourced third-party service providers.**"

In this situation, to be considered compliant a company must verify that its service provider's controls, in addition to its own, are effective.

Compliance with Sarbanes-Oxley does not come cheap. A survey conducted by Financial Executive International in 2004 found that the average cost of compliance in the first year with Section 404 was over \$3 million.

SSAE 16 auditing can help customers reduce these costs. Instead of sending in their own team of auditors to assess their service providers' internal controls, which is expensive and time-consuming, customers can provide their auditors with a copy of their service providers' SSAE 16 audit reports.

By successfully completing a SSAE 16 audit, service providers can **offer customers a valuable tool for planning and streamlining the audit of their financial statements.**

It is important to note here the distinction between the two types of audits. Many service providers have only obtained a Type I audit, which **lacks the level of due diligence offered by a Type II audit.** Type I reports do not state whether the controls described by the service provider are operating effectively, as a Type I audit does not include **testing** of those controls. Therefore, a Type I report cannot offer assurance to a customer's auditors "that the service provider's controls actually work."

HTLC Network SSAE 16 Type II Audit Results

By providing customers with its SAS 70 Type II audit report, HTLC Network can help them control the costs of regulatory compliance, as well as offer assurance that HTLC Network has established effective internal controls over the hosting of customer data.

For its Type II audit, HTLC Network identified control objectives in the following areas that were then examined and tested by the auditors, including:

Control Environment and Objectives
Physical Security
Environmental Security
Service Organization and Content

Computer Operations and Processes
(Backup & Storage and System Availability)
Information Security
Data Communications
Customer Access.