

Controls Assurance for Third Parties



A cost of doing business in today's world is the need to meet the demands of your customers for assurance that you operate a well run organisation that will protect their data and secure their assets. In an increasing number of industries businesses cannot expect to win substantial clients without first assuring them that they operate to high standards of control. Where your customers need that assurance in the form of a control report from an independent specialist, Kingston Smith Consulting can help.

There are two main types of control reports.

SAS 70

Statement on Auditing Standards (SAS) 70, developed by the American Institute of Certified Public Accountants is the most internationally recognised standard for independent control reports. SAS 70 reports focus on the control objectives which are critical to your customers and detail the controls in operation within your organisation to meet those objectives. They are flexible tools, intended to be customised to meet the assurance needs of your customers and are either Type I (controls as they exist are described and have been tested at a specific point of time) or Type II (controls described have been independently tested over a period of time, often a year, and the results of those tests are reported). Type II reports are by far the most common. In either case, SAS 70 reports must be accompanied by an independent auditor's opinion on the accuracy of the content.

AAF01/06

In the UK, the Institute of Chartered Accountants of England & Wales Audit & Assurance Faculty issued a standard known as AAF01/06 which was intended to apply SAS 70 principles to pension funds needing control assurance from their third party investment managers and administrators. It has gained wider acceptance in other industries and is now sometimes used instead of a SAS 70. It requires Type II style compliance, although Type I compliance is permitted in the first year, but the major difference is that it pre-defines the control objectives that need to be covered as a minimum (SAS 70 reports allow these to be user defined). An AAF01/06 report must cover control objectives over accepting clients, transaction processing, maintaining records, safeguarding assets, compliance monitoring, client reporting and information technology.

Whether the control report produced is a SAS 70 or an



AAF01/06 it will usually be driven by the requirements of your clients who may have a preference, or by the norms of your industry.

Our Services

Independent controls reporting should not be difficult or expensive to achieve. There is a great deal of established good practice on the content of SAS 70 and AAF01/06 reports which can be leveraged to make the process of obtaining these reports efficient and trouble free. Kingston Smith Consulting offer standard solutions to address all the likely needs you will have in this area.

For organisations seeking a controls report for the first time:

- **Specification** – independent control reports are commissioned for one overriding reason, to meet the control assurance demands of your most important clients. The report will be a success if your clients are happy to place their business with you without requiring that their own staff perform a separate audit of your controls and with few ad hoc requests for further control information. This goal can be achieved by correctly specifying the report content before it is produced. SAS 70s allow wide discretion on which control objectives may be included; Kingston Smith Consulting can work with you and your major clients to identify just those controls where assurance is needed. A short exercise with major benefits, this ensures the client gets what they need and that you avoid unnecessary costs of reporting on controls which are not required. This can result in a SAS 70 which addresses just a single control objective, or one that addresses many. Whichever is the case you can be confident it is the right level of content for your client's needs.
- **Gap analysis** – even worse than a badly specified control report is a control report which identifies many control weaknesses. Before commissioning the report you should know where it is likely to reveal weaknesses in your organisations controls; know where these are and give you the opportunity to correct them. Kingston Smith Consulting can perform a rapid review of your business against the control objectives you are looking to address and report back where controls are not 'report ready'. Typically performed in no more than two weeks, we keep the cost of the exercise down by using a streamlined approach with reporting focused only on the problem areas. Where we are not providing the independent auditors report to the final control report, Kingston Smith Consulting can also provide direct support to fix those issues identified by the gap analysis, with improved control design and implementation.
- **Report production** – whether it covers one control objective or many the drafting of the control report can be a large investment of time. As a document that will go to many of your clients the quality of presentation is a reflection on your organisation. In addition, outside of the control specific content, there is scope to include information on your organisation which has wider marketing value, such as a commentary on your business culture and ethics, or your strategy. Kingston Smith Consulting can work with you to develop the full content as quickly and efficiently as possible, using the lessons learned and good practices from many other organisations. Critical to efficient report production is use of the right skills and experience, our extensive industry knowledge to quickly identify the relevant controls and our technology expertise to address those controls which are rooted in the technology environment. Whether you want us to review and enhance your initial draft or delegate the full drafting process to us, we will ensure the final report is a positive reflection on your organisation and ready for publication.
- **Audit** – common to SAS 70 and AAF01/06 is the requirement that the content be subject to audit by an independent reporting accountant. The audit opinion confirms the content of the report in relation to the controls reported and, in the case of Type II reports, their effectiveness as evidenced by testing. Kingston Smith Consulting, as part of the Kingston Smith professional services organisation, can provide auditors to perform all necessary testing and provide the final audit opinion. Often audit firms performing the financial statement audit for a client see control reports as an opportunity to improve their margins and charge a fee accordingly. Kingston Smith recognises that control report audit is a



specialist area, one that requires sufficient work and not gold plating, and as a result we are able to charge a competitive fee.

For organisations with a controls report needing update:

- **Report update** – most control reports are updated annually as clients demand a current view of your organisations controls. Where a report has been produced for several years there is likely to be value in a full re-evaluation of the controls being reported. Changes in the business often mean that certain controls have gained in importance while others have diminished; retaining controls in the report (and in your business) because they were of past importance is not a cost effective strategy. In addition, taking an opportunity to compare your reported controls with those of other organisations may provide insights to how your competitors approach to control has evolved. Kingston Smith Consulting can provide a rapid round of challenge to your control report content, looking at how it now fits your evolving organisation and how other organisations are operating. Our report will be focused on suggestions for changing the report content with an indication of how those changes might reduce the subsequent cost of audit.
- **Testing** – for Type II reports, testing of control operation must be performed in order for the auditors to state in their opinion whether those controls have operated throughout the period covered by the report. This testing is often performed by the audit firm and charged at external audit fee rates. Kingston Smith Consulting can perform the same testing at a lower cost. Our service includes performance of the testing and documentation

of that testing to a level and quality which allows the audit firm to place reliance on it. As recognised specialists in controls assurance, working to international standards prescribed for internal audit and IT audit, your auditors are obliged to use our testing in place of their own, reducing their fees substantially.

- **Audit** – as described above, Kingston Smith can address all the independent audit needs for control reports.

Our Difference

Kingston Smith Consulting LLP is the leading business protection consultancy providing proven solutions to the real threats and challenges faced by your business. Working with our clients, often at the heart of their critical business initiatives, the success of each engagement is built on our strong service values:

We **deliver solutions**, defining and agreeing the outcome you require and charging the price which achieves that end, so that you will always understand the cost and benefit of our services.

We focus on **achieving return on investment**, we measure our success on the value you realise, this means solutions delivered to your specific needs and not someone else's template.

We **bring expertise** and experience to every engagement; every consultant in our team has a record of successful delivery in their field of expertise.

We **build capability** in our clients, through training, coaching and mentoring, through open access to our methodologies and intellectual property, on every engagement we aim to move our clients closer to self-sufficiency.

About Kingston Smith Consulting LLP

Kingston Smith Consulting is the specialist consulting practice associated with the top 20 accountancy firm Kingston Smith LLP. Kingston Smith was originally formed in 1923 and the firm has grown to its current position through organic growth and mergers. Kingston Smith is a member of KS International which is an association of independent accounting firms in over 50 countries around the world.

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