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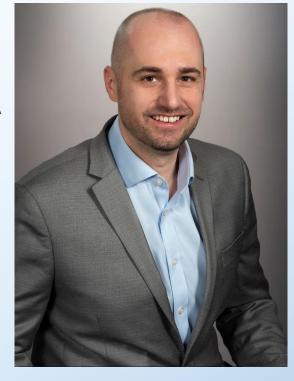# The Essentials of SOC 1 – All You Need to Know

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Introductions

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Agenda

- **What is a SOC 1 Report?**

- **Why and when you need a SOC 1 Report**

- **Uses for a SOC 1 Report**

- **What does the SOC 1 Audit Process look like?**

- **Benefits of a SOC 1 Report**

- **Q&A**

Background

SAS 70 to SOC 1

- 1992 – SAS 70 was established to report on controls at service organizations for entities that use service organizations to accomplish tasks that may affect their financial statements

- 2010 – the AICPA issued SSAE 16, effectively eliminating SAS 70 and establishing System and Organization Controls (SOC) reports
  - Established SOC 1, SOC 2, and SOC 3 Reports

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What is a SOC 1 Report?

SOC 1 EXAMINATIONS

- Focused on service organizations reporting on controls relevant to internal control over financial reporting or a specific financial statement assertion
    - Opinion on the service organizations system of control objectives and controls for services provided to user entities that are relevant to internal controls over financial reporting or a specific financial statement assertion

- Intended to provide financial statement auditors of user entities assurance over the internal controls at services organizations who services are relied upon for financial reporting
    - Examples Services Organizations include but are not limited to: Payroll Processing Providers, Benefits Providers, Third Party Administrators, and Accounting/Reporting software

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What is a SOC 1 Report?

TYPES OF SOC 1 REPORTS

- **SOC 1 Type I Report**
    - Provides assurance on the design effectiveness of the controls at the service organization
    - SOC 1 Type I reports only evaluate whether control objectives and controls are designed effectively at a specific date in time

- **SOC 1 Type II Report**
    - Provides an opinion on both the design and operating effectiveness of the controls at the service organization
    - SOC 1 Type II reports assess whether the control objectives and controls are designed appropriately and whether the controls are operating effectively over a period of time (typically a 6-to-12-month period)

What is a SOC 1 Report?

COMPONENTS OF A SOC 1 REPORT

- **Auditor's Opinion**
  - **Audit opinion on the design and operating effectiveness of the description of controls, control objectives and controls based upon the audit procedures performed**

- **Management's Assertion**
  - **Management's assertion to the accuracy of the description of controls as well as the design and operating effectiveness of control objectives for the reporting period**

- **Description of Controls (Narrative)**
  - **Describes the details of the system of controls in place to meet the service organization's control objectives**

- **Control Objectives, Controls, and Tests of Controls**
  - **Defines each control objectives and controls including the tests of operating effectiveness performed by the auditor along with the results of the tests**

SOC 1 vs SOC 2

WHAT IS THE DIFFERENCE BETWEEN A SOC 1 AND A SOC 2?

- **Control Objectives vs AICPA Trust Services Criteria**
  - **SOC 1 – Provides unique customized control objectives and controls to meet those objectives based upon specific financial reporting objectives or assertions**
  - **SOC 2 – Controls are designed to meet the AICPA Trust Services Criteria for Security, Availability, Confidentiality, Processing Integrity and Privacy**

- **Users and User Entities**
  - **SOC 1 – Users and user entities would include the customers and their independent auditors who audit and report their financial statements or internal control over financial reporting**
  - **SOC 2- Users and user entities of the system, business partners, practitioners providing services to user entities, prospective business partners and regulators**

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Why You Would Need SOC 1

SERVICE ORGANIZATIONS

- Service Organizations that provide a service or system that directly impacts their user entities internal controls over financial reporting or a financial statement assertion
  - Processing or Reporting information recorded on the financial statements
  - Information technology controls relevant to integrity of information that is recorded on the financial statements

- Payroll Processing, Employee Benefits Providers, and Third-Party Administrators, Accounting Software and/or Data hosting
  - Examples also include cloud-based accounting software or inventory/lease calculation software service providers

Why You Would Need SOC 1

USER ENTITIES

- **Organizations that specifically use service organizations system that directly impact their internal controls over financial reporting**
  - Review SOC 1 Reports from service organizations for relevance
  - Document the review of the SOC 1 report as it relates to their financial reporting objectives

- **User Entities Auditors**
  - Appropriate internal controls exist at service organizations to support the relevant financial statement assertions and internal control over financial reporting objectives

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When You Need a SOC 1

- Service Organizations
  - Providing services impacting and/or integral to customers financial reporting
  - Requests from customers (user entities) and auditors
  - Reporting period end alignment with user entities

- User Entities
  - Entities that have financial statement line item or internal controls over financial reporting that is directly impacted or provided by a specific service organization
    - Example: User entities using a payroll provider who calculates and reports payroll information that is recorded into the general ledger of the user entity

How to Use the SOC 1 Report

USER ENTITIES REQUESTING AND REVIEWING SOC REPORTS (CONT)

- **Review the SOC 1 independent auditor's opinion**
    - **Unmodified Opinion vs Modified**
    - **Non-operating controls or areas identified as an emphasis of matter**

- **Review the tests of controls and results of testing**
    - **Tests of controls applied by the auditor**
    - **Review exceptions noted by the auditor**

- **Review the Complementary User Entity Controls**
    - **Controls the User Entity must have in place to ensure that the service organizations controls can operate effectively**
    - **Consideration of whether the user entity has applied the specific controls identified in the SOC 1 report**

SOC 1 Audit Process

SOC 1 PROCESS CONSISTS OF TWO PRIMARY COMPONENTS

- Readiness/Pre-Assessment
    - Step one for service organizations that have never completed a SOC 1 Report
    - Confirms scope, control objectives and controls are relevant
    - Verifies that sufficient relevant documentation is maintained for controls

- SOC 1 Audit
    - Comprised of the following phases during the SOC 1 reporting period
        - Audit Planning
        - Fieldwork and Control Testing
        - Reporting

SOC 1 Readiness Assessment Process

READINESS/PRE-ASSESSMENT PROCESS

- **Planning and Scoping the Assessment**
    - **Planning and Timeline for Readiness**
    - **Identifying and documenting the SOC 1 scope**

- **Identifying Relevant Control Objectives and Controls**
    - **Identifying the financial reporting objectives**
    - **Documenting business processes**
    - **Identifying and mapping controls**

- **Developing the Description of Controls Narrative**
    - **Documents the system of controls for the SOC 1**

- **Sufficient Relevant Documentation**
    - **Ensures that sufficient evidence exists for the operation of controls**

SOC 1 Audit Process

SOC 1 AUDIT PROCESS

- **Audit Planning**
    - **Timeline for SOC 1 Audit**
    - **Document Scope and Relevant Audit Strategy**
    - **Define Testing Dates and Reporting Dates**

- **Fieldwork Testing**
    - **Perform Walkthroughs**
    - **Test the Operating Effectiveness of Controls (Inquiry, Examination, Observation and Re-performance)**
    - **Provide Preliminary Results**

- **Reporting**
    - **Provide Service Organization with Draft Report**
    - **Issue Final Report**

Benefits of SOC 1 Report

SOC 1 Benefits

WHAT ARE THE BENEFITS OF A SOC 1 REPORT?

- **Primary Benefits**
  - Validation of Internal Controls and Processes
  - Assurance that systems are appropriately processing transactions
  - Commitment to the data integrity, security, and governance
  - Reduces requests from multiple user entity auditors to test the service organizations system of controls

- **Other Benefits**
  - Demonstrates a commitment customers through an audit of the system of controls
  - Differentiates a service organization from competitors
  - Provides transparency relevant to an organizations control processes
  - Opportunity to enhance risk management and operating efficiency within your organization

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