

# SOC 1 Reports

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# Agenda

- When do you need a SOC report?
- What are the different types of SOC reports?
- What is required for reliance in a financial audit engagement?
- What do I look for in a SOC report?
- Options when a SOC report is not available...
- How are SOC reports used by audit staff?

# When do you need a SOC Report?



Service Organization: An organization or segment of an organization that provides services to user entities that are relevant to those user entities' internal control over financial reporting. [Source [AT-C 402.04](#)]

## When do you need a SOC Report?

### Service Organization Determination

Are the services material to the financial statements?

Is the organization performing management functions?

What is the degree of interaction between the user entity and the service organization.

# When do you need a SOC Report?

NO REQUIREMENT for a SOC report in the Standards.

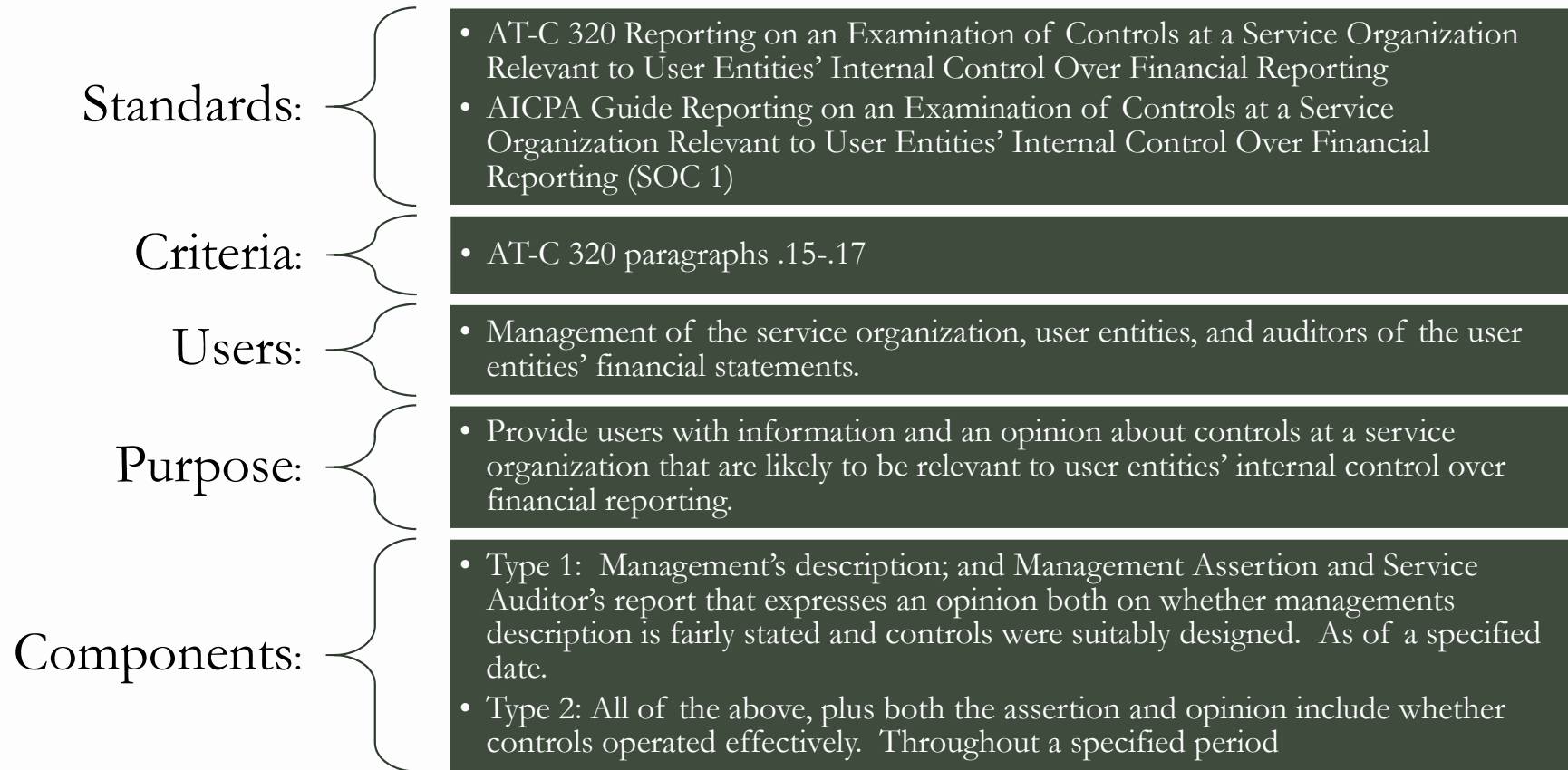


HOWEVER; a contract between the auditee and their service organization may require a SOC engagement.



A SOC 1 Type 2 engagement is most often the best option when relying on service organization controls that are likely to be relevant to internal controls over financial reporting.

# What are the different types of SOC reports? – SOC 1



# What are the different types of SOC reports? – SOC 2

Standards:

- AT-C 205 Assertion Based Examination Engagements
- AICPA Guide for Reporting on Controls at a Service Organization Relevant to Security, Availability, Processing Integrity, Confidentiality, or Privacy (SOC 2)

Criteria:

- AICPA Guide Paragraph 1.26 (and 1.27 if Privacy is included)
- TSP section 100

Users:

- Management of the service organization and other specified parties who have sufficient knowledge and understanding of the services, applicable trust services criteria and the parts of the SOC report.

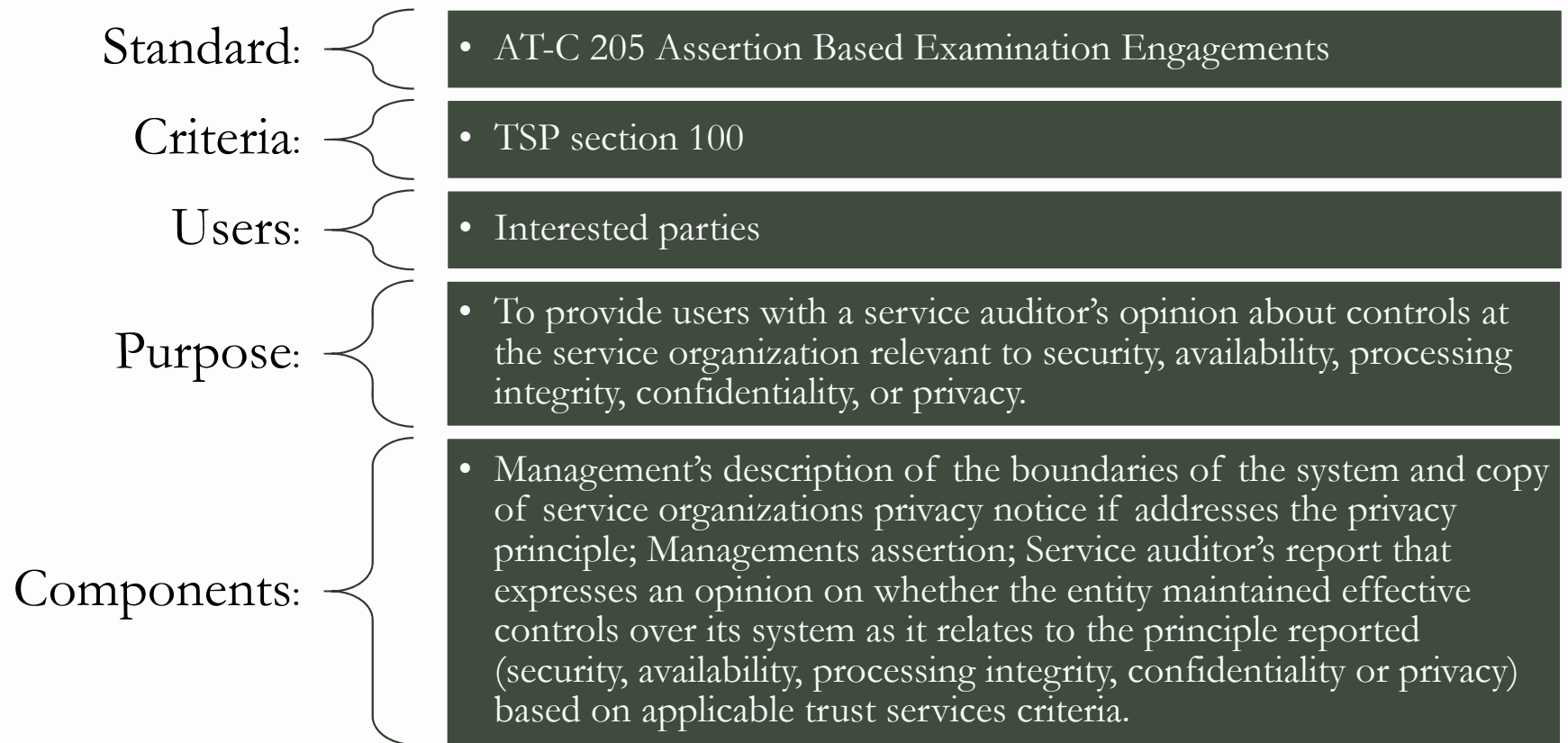
Purpose:

- Provide users with information and a service auditor's opinion about controls at the service organization relevant to security, availability, processing integrity, confidentiality, or privacy.

Components:

- Type 1: Management's description; and Management Assertion and Service Auditor's report that expresses an opinion both on whether managements description is fairly stated and controls were suitably designed. As of a specified date.
- Type 2: All of the above, plus both the assertion and opinion include whether controls operated effectively. Throughout a specified period.

# What are the different types of SOC reports? – SOC 3





# What is required for reliance in a financial audit engagement?

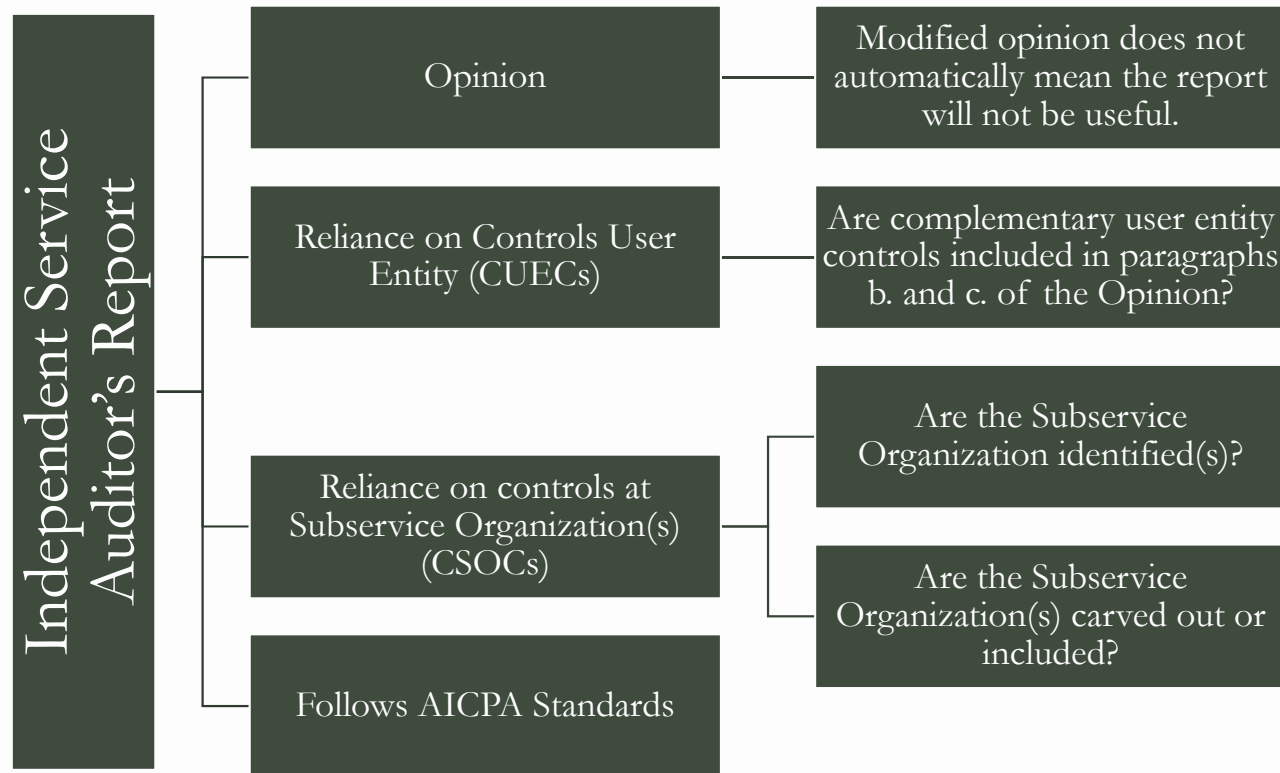
**SOC 1** report enables the user auditor to perform risk assessment procedures, and a **Type 2** to use the report as audit evidence that controls at the service organization are operating effectively.

Follows AICPA Standards (International Standard on Assurance Engagements (ISEA) 3402 may also be cited)

Period of Coverage includes “a substantial portion of the period covered by the user entity’s financial statements being audited.” [Source: AAG ASO Chapter 3.08]

Satisfied with the service auditor’s professional competence and independence from the service organization. [Source: AU-C 402.13]

# What do I look for in a SOC report?



# What do I look for in a SOC report?

## Reliance on User Entity Controls (CUECs)

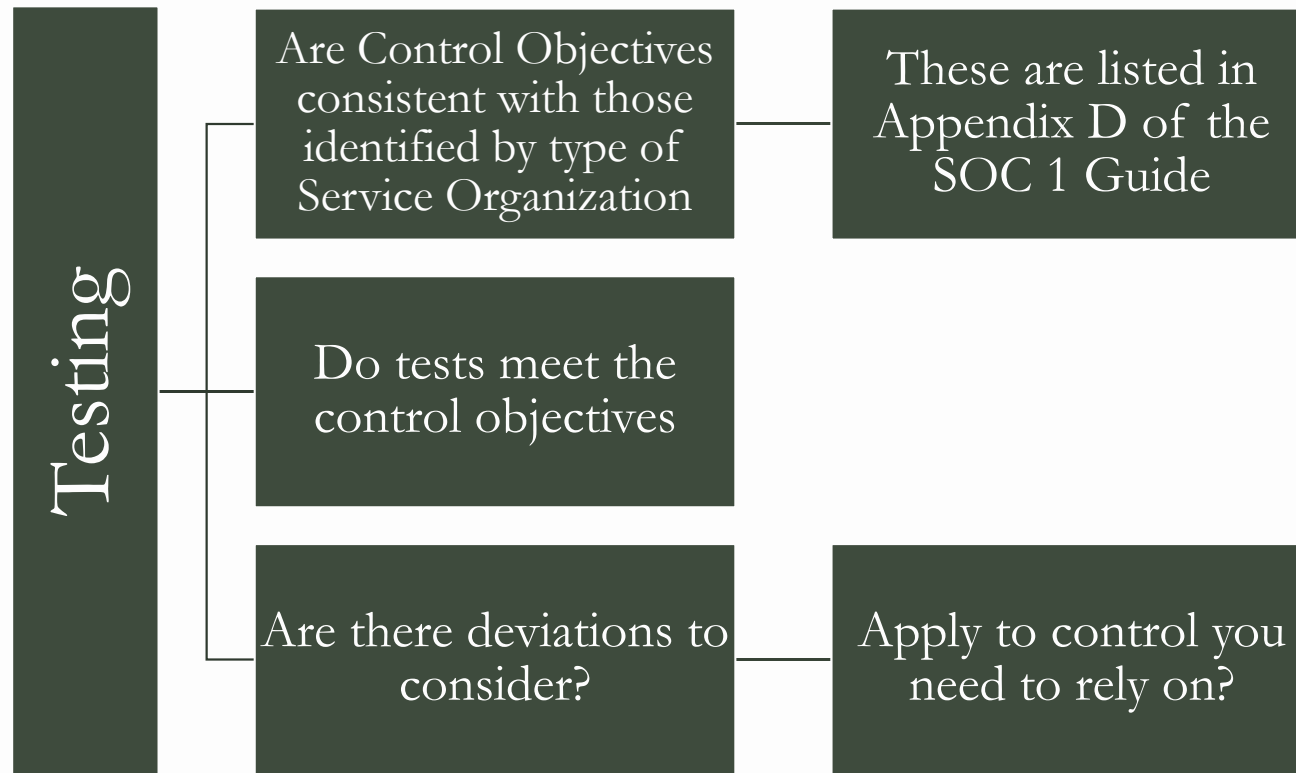
- Are complementary user entity controls included in paragraphs b. and c. of the Opinion?
- Are CUECs included in either the description with the applicable control objective or with the testing?

# What do I look for in a SOC report?

## Reliance on Subservice Organization

- Is the Subservice Organization carved out or included?
  - Carve out:
    - Are complementary subservice organization controls included in paragraphs b. and c. of the Opinion?
    - Are CSOCs included in either the description with the applicable control objective or with the testing?
  - Inclusive:
    - Is there a Management Assertion letter for the Subservice Organization included in the report?

# What do I look for in a SOC report?



## Options when a SOC 1 Type 2 Report is not available

AUP may be considered as an alternative in limited situations [AT-C 320.04-.05, .A5] or to test operating effectiveness of controls [AU-C 402B.A10].

Perform procedures AT the Service Organization to obtain specific information to obtain a sufficient understanding of Internal control to assess the risk of material misstatement. [SOC 1 Guide 4.59]

Have a Service Auditor perform procedures to obtain specific information. [SOC 1 Guide 4.59]

# How are SOC reports used by Audit Staff?

**SOC 1** report enables the user auditor to perform risk assessment procedures, and a **Type 2** to use the report as audit evidence that controls at the service organization are operating effectively.

## Evaluate Failures:

- **Deviations in Testing/Modified Opinion**
  - Does it apply to a test of control that you are relying on?
  - Does it apply to certain entities?
  - Are there compensating controls or CUECs that mitigate the risk?
  - Are details provided in management's response or additional testing performed that would help in the evaluation?


# How are SOC reports used by Audit Staff?

## Evaluate Failures:

- **Complementary User Entity Controls**
  - User Auditor Responsibility: IF the CUEC is for a control objective that is relevant to the user entity's financial statements, the CUEC must be tested or you cannot reduce your risk for that control objective.
  - Failure: You cannot rely on the control if the CUES is not operating effectively.
- **Complementary Subservice Organization Controls**
  - User Auditor Responsibility: IF the CSOC is for a control objective that is relevant to the user entity's financial statements, the CSOC must be tested or you cannot reduce your risk for that control objective.
  - Failure: You cannot rely on that Service Organization control if not operating effectively OR not included in the subservice organization's report.



# Take Aways...

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- Identify Service Organizations that materially impact your Financial Statements
  - Document/Evaluate Governmental Controls over Service Organization
  - Obtain and Review SOC 1 Type 2 Report
  - Determine Reliance on Report and IPA
  - Identify Subservice Organizations and Follow-up on CSOCs
  - Test CUECs for Material Control Objectives
  - Evaluate Effect of Failures and/or Modified Opinion



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