

Key Components of SOC 1

Focused on financial integrity, SOC 1 audits are pivotal for organizations that require rigorous oversight of financial controls. These audits are crucial for entities subject to regulations such as the Sarbanes-Oxley Act (SOX), where accurate financial reporting is mandatory for publicly traded companies.

Any service provider whose operations affect their client's financial statements requires SOC 1 certification to demonstrate commitment to financial excellence at the most rigorous standard.

Two Types of SOC 1 Reports:



Type I: Description and suitability of the design of controls at a specific point in time.



Type II: Description, suitability, and operating effectiveness of controls over a specified period.

Type 1 tests the controls just once, where Type 2 performs testing over a longer period to show the operating effectiveness of business processes and IT controls related to financial reporting. Though some organizations will get what they need from a SOC 1 Type 1 audit, SOC 1 Type 2 is a more robust and comprehensive, and typically more a satisfactory audit depending on the level of transparency needed.

SMBs with newly established controls often start with a Type 1 audit to ensure that everything is designed correctly before moving on to a Type 2 audit in subsequent periods to demonstrate control effectiveness over time.

Who Needs a SOC 1 Audit?

Payroll Processors

Cloud Service Providers

Financial Services

Data Centers

Medical Billing Companies

Software-as-a-Service Providers

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| Feature | |
|----------------------------|--|
| Use | Systems processing transactions that affect their customers internal controls over financial reporting (ICFR). An example of this is payroll processing. |
| Control Objectives | Defined by service organization (it does not cover controls related to operational performance or compliance with laws and regulations unless those controls impact financial reporting). |
| Distribution | Users of the system and their auditor. Restricted-use reports, meaning intended for a specific audience. |
| Other Comments | Assist customers and their auditors in planning and performing an audit of the customer's financial statements. |
| Preparing for SOC 1 | Identify relevant control objectives, document controls, and ensure they are effectively designed and implemented. Organizations may need to conduct a Gap assessment to identify weaknesses in their controls before conducting a formal SOC 1 audit. |

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SOC 1 Certification Process

