

# 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.

## The 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 a more 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	
<b>Use</b>	Systems processing transactions that affect their customers internal controls over financial reporting (ICFR). An example of this is payroll processing.
<b>Control Objectives</b>	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).
<b>Distribution</b>	Users of the system and their auditor. Restricted-use reports, meaning intended for a specific audience.
<b>Other Comments</b>	Assist customers and their auditors in planning and performing an audit of the customer's financial statements.
<b>Preparing for SOC 1</b>	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.

The interests of current and potential clients and customers, whether information is intended to be presented publicly or internally, and the industry an organization is in should also be determining factors when deciding if a SOC 1 audit is an appropriate and advantageous engagement.

## SOC 1 Certification Process

