

# YOUR CLIENTS EXPECT IT.

As a service provider, obtaining an annual assessment of internal controls over your key services demonstrates your commitment to meeting not only regulatory mandates, but also meeting your clients' requirements and expectations. Your clients and prospects need to be confident that your organization provides services meeting their internal control needs over relevant financial reporting considerations. An independent assessment of your organization's controls achieved through annual assessments can provide the proper assurances to your clients of sound control environments and security practices.

SSAE 16 (also known as SOC 1) engagements are detailed examinations of the internal controls of a service organization. The examination typically covers both business process and information technology controls related to services provided. There are two types of SSAE 16 examination reports.

- Type 1 reports are intended to provide auditors with information about the design of controls at a service organization **as of a specific date**.
- Type 2 reports are intended to provide information about the design of controls at a service organization and the results of tests of effectiveness for a coverage period (no less than 6 months).

Only a licensed CPA firm can perform a SOC 1 examination. A SOC 1 examination report opinion issued by an unlicensed audit firm is not valid and would affect its reliability by third parties.

## Who should consider a SOC 1, Type 1 examination?

Your organization needs a SOC 1 report of **any type** to be delivered in a relatively short amount of time. Often, the need is related to fulfilling an RFP or contractual requirement.

Your organization is **not contractually required** to have an examination performed and is considering the examination purely for marketing purposes.

Your organization is required to undergo a SSAE 16 (SOC 1) examination, but the type of examination is not specified, and the service organization believes that its user organizations are likely to accept a Type 1 report.

## Who should consider a SOC 1, Type 2 examination?

Your service organization provides a service that has a **direct and/or significant impact on the financial reporting controls** of its clients.

Your service organization is **contractually obligated** to provide a Type 2 report to its clients.

Your service organization provides significant services to publicly traded companies that fall within the purview of these customers' Sarbanes-Oxley (SOX) compliance efforts.



**Phase I: Initial Consultation**  
1-3 Days

- Educate your organization about SOC 1 services
- Agree on the scope of the examination terms and timing
- Determine the service(s) area to be audited
- Finalize the agreement with an engagement letter

**Phase II: Planning and Preparation**  
2-3 Days, 2 Months Prior to Fieldwork

- Compile the draft of management's description of controls section and provide to management for update
- Discuss roles and set expectations for the project
- Solicit responses in the form of questionnaires (or update prior versions of the examination report for recurring clients)
- Submit a detailed documentation request list to key personnel
- A detailed fieldwork project plan is submitted to the client for any modifications

**Phase III: Fieldwork (at interim and final phases)**  
3-6 Weeks

- A kick-off meeting is conducted on the first day of fieldwork
- Engagement team members perform walkthroughs and inquiry procedures with key personnel to assess whether the control activities are suitably designed to provide reasonable assurance that the specified control objective would be achieved if the controls were complied with satisfactorily
- Testing procedures are performed to determine whether the controls are in place as of the report date, and for Type 2 examinations, whether the controls were in place and operating effectively during the review period
- Test results are communicated to management, and if necessary, discrepancies are resolved. All testing exceptions are confirmed with management prior to the closing meeting and final report
- A closing meeting is conducted with management and the engagement team to address any issues, opinion qualifications, testing exceptions, recommendations for improvement, outstanding project tasks, and the timing of remaining project steps

**Phase IV: Reporting**  
4-6 Weeks to Complete

- The SSAE 16 / SOC 1 report (Type 1 or 2) is drafted by the engagement team following the completion of onsite fieldwork. Extensive quality assurance procedures are performed and documented during the drafting process
- The engagement manager reviews and approves examination workpapers and the draft report for submission to the client for management response
- The draft report is submitted to the client for review. One or more revised drafts are issued based on client feedback and requested modifications
- The client approves a final version of the draft report for issuance and the final report, and any other deliverables, are issued