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# Are you looking for a competitive advantage?

How a SOC report can help build trust with your customers.

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# Are you looking for a competitive advantage?

How a SOC report can help build trust with your customers.

*By Henry A. Silva, CPA, CGMA, MBA, Shareholder and Director of Emerging Business*

What are SOC reports and how can these reports provide service providers with a competitive advantage? Below is a layman's guide that will hopefully help service providers determine how useful SOC reporting can be. We will begin by defining exactly what a SOC report is and why the AICPA developed the framework for reporting. We will also review the benefits of the different types of reports and how they can be used to their advantage to help existing customers, to attract new customers and to improve the operational areas within their own organization.

## What is a SOC Report?

Most service organizations are familiar with the old SAS70 reports which related to reporting on internal controls over financial reporting at these organizations. As businesses have become increasingly reliant on outsourcing of technology and operational functions to third party providers, user entities have really taken on the additional risks of their outsourced partners. A customer (user entity) of a service organization is not only exposed to the risks of the service organization, but also those of the customers of the service organization itself. As such, SAS70 engagements became outdated as they were not designed to examine compliance and operational issues such as security, availability, processing integrity, confidentiality or privacy. These factors became the pillars of the AICPA's Trust Service Principles.

In response to this sea of change towards the outsourcing world, the AICPA developed [Service Organization Control Reports®](#) (SOC reports) which enabled CPAs to provide assurance on internal controls over matters other than only financial reporting. SOC reports have filled the needs of the changing marketplace regarding reliability and risk mitigation. With a greater focus on internal control by regulators, boards of directors, and others charged with governance, there has been an increase in demand for attestation reports for both controls over financial reporting and other subject matters. The SOC reporting framework provides the flexibility to meet these demands with three types of SOC reports.

## Which companies would benefit most?

Companies that may need a SOC report include service organizations that perform a financial reporting function or handle sensitive information on behalf of their customers. Some of these companies could include: financial institutions, claims processors, internet service providers, application service providers, benefits administrators, payroll companies, data centers, retirement plan record keepers, title companies, and many other entities that provides third-party outsourcing services.

## Why do I need this report?

These reports help companies demonstrate their commitment to safeguarding their customers' sensitive data while maintaining a high level of quality and accountability. It builds trust and confidence that can be used to reinforce existing customer interaction and attract future customers.

With security compromises, privacy and data breaches and financial frauds dominating the news headlines, the need for managing risk and tightening controls is at an all-time high. It is important for service organizations to demonstrate that they have adequate controls and safeguards in place when hosting or processing data belonging to their customers. A SOC report can help service providers demonstrate to their existing and potential customers that they can rely on the organization to handle their information appropriately.

## What type of report do I need?

### *SOC 1 Reports – help with your customer's financial statement audits*

As part of the financial statement audit planning process for a customer, the auditor is required to consider the internal control environment at outside service providers as they relate to the customer. As such, the customer's auditor may have to perform audit work at the service organization, which would lead to additional costs for the customer, or the auditor can rely on a SOC 1 report which focuses solely on a service organization's relevant internal controls over financial reporting. It has essentially replaced the role of the SAS70 report as it was originally intended to be.

Once the SOC report is issued, a company can pass this report along to their customer's auditor (the SOC 1 report can only be used by the auditors of user entities and user entities' management) so that they gain comfort with the service provider's internal controls, thereby saving valuable time and money.

### *SOC 2 Reports - help you gain the trust and confidence of your existing customers*

One of the biggest challenges for outsourced service providers is confirmation that their customers' data is safe, protected and kept private. They can elect to go a little further and have a more in-depth look at their internal controls over nonfinancial areas in order to gain the confidence and trust of their customers.

SOC 2 reports address controls at the service organization related to operations and compliance. These reports focus on the organization's controls over the trust service principles (security, availability, processing integrity, confidentiality or privacy), which are areas that were not meant to be covered by the SAS70 reports of the past. The SOC 2 report provides detail on these controls and is intended to be a restricted-use report intended for those users that have some knowledge of the nature of the services provided by the service organization.

These reports can be provided to their existing customers so that they gain the confidence and trust that their information is safe, secure and protected. In some cases, this testing may reveal opportunities for improvements in their own operational areas, as well, which can be remediated to strengthen their system even more.

### *SOC 3 Reports - allows you to market the information to potential customers*

The SOC 3 report addresses the same areas covered within the SOC 2 report in a shortened version without the detail provided in SOC 2 reports. These reports are general-use reports intended to be used as a marketing tool on the service organization's website. This report can serve notice to potential customers that the service organization has appropriate controls in place to mitigate risks on nonfinancial matters. Many consider the SOC 3 report as a “seal of approval” that your organization has passed the AICPA's SOC reporting requirements. This SOC 3 seal may clearly provide a competitive advantage over other service providers, and can be used to attract new customers.

### **Who should I call for more information?**

To learn more about SOC reporting and to answer any questions, feel free to contact us. If you would like to set up a meeting to address your specific needs, please email us at [TrustedAdvisors@kahnlitwin.com](mailto:TrustedAdvisors@kahnlitwin.com).



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