# What is a SOC Exam and Why is it Important?

*By Stephen N. Holcomb, CPA, MBA*

Ask any business owner if controls are important to the success of a business, and most likely they will answer with a resounding "Yes!" Let's take that question a bit deeper - has that business evaluated its internal controls and tested them against professional standards? What would happen if that business – a service organization, in this case – neglected its internal control environment?

Let's put this into a more tangible perspective. Imagine shopping for a high-end, used car. You browse the lot and find the perfect vehicle for your needs. While talking with the salesperson, you ask if the dealership's mechanics have inspected the car, and the answer is "no." Although you would really like to drive away in that car today, would you risk committing to such a large purchase without knowing that the car is mechanically sound? Being a logical person, you do not have enough confidence in this situation to want to assume the risk of any undetected problems with this vehicle. You decide to pass until you can receive proof that the car has been thoroughly inspected and any mechanical issues have been fixed.

Just like routine diagnostics and maintenance are designed to keep a vehicle's mechanical components running smoothly, thereby giving the driver peace of mind, internal controls are designed to help keep the functions of service organizations operating smoothly, which in turn gives management and customers more peace of mind. The more moving parts the organization has, the more important internal controls become. While no internal control environment is perfect, service organizations can be proactive and employ an independent CPA firm to perform a System and Organization Controls Exam (SOC Exam), which is designed to help expose areas of weakness in the service organization's controls and provide management with information to strengthen the control environment.

With billions of dollars worth of services, finances, and data exchanged by service organizations each year, it is vital that these organizations provide their current customers, prospects, and financial statement auditors (end-users) with independent assurance that the processes and controls within the organization are operating effectively. After completing SOC exams in accordance to professional standards set forth by the American Institute of Certified Public Accountants, CPAs may issue various types of SOC reports depending on which type of SOC exams were performed. Both the end-users and the service organization benefit when the SOC reports are able to provide reasonable assurance that:

1) The service organization's controls over financial reporting are adequate and operating as designed;
2) The service organization handles sensitive data appropriately; and
3) The organization effectively implements risk management for cybersecurity.

Because of the inherent risks associated with outsourced services, end-users need the confidence that the service organization takes the necessary steps to mitigate risks by diagnosing and improving the effectiveness of its internal control environment. A service organization's investment in SOC examinations can help provide this crucial level of confidence that the end-users need to ultimately decide to invest their time and resources with the company.
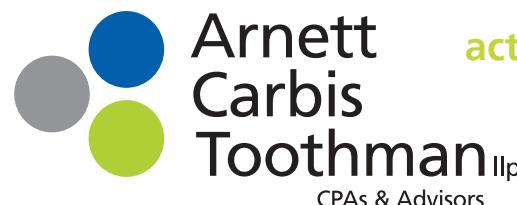
Want to learn more about System and Organization Controls? Could your organization benefit from a SOC Exam? Request that one of ACT's experienced SOC experts get in touch with you to answer your questions.

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