THE RISE OF SOC 2

As an increasing number of organizations are choosing to undergo SOC 2 examinations, we wanted to dive deeper into what's driving the growth.

To help us substantiate the claims we hear on the growth of SOC 2 examinations, we surveyed our client base to get a comprehensive understanding of current attitudes regarding the SOC 2 examination.

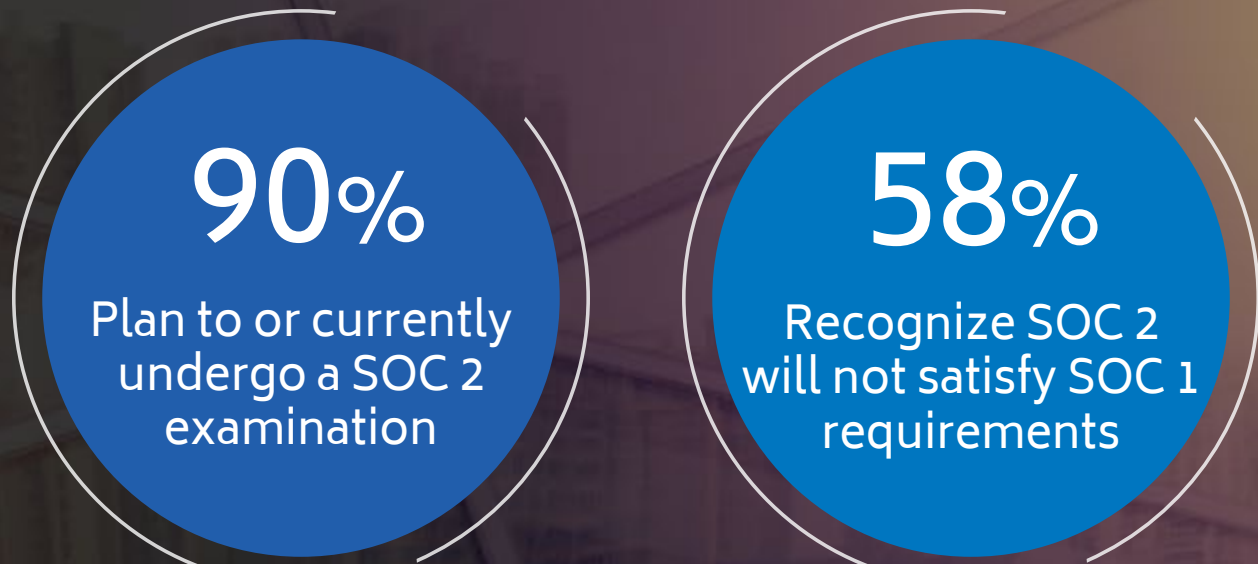**We asked survey respondents four simple but key questions:**

- Do you currently undergo a SOC 2 examination (or are you planning to)?
- Do you provide services to customers that are relevant to their internal control over financial reporting?
- Have you completed both the SOC 1 and SOC 2 examinations?
- Have you received SOC 2 reports from your business partners and vendors?

Let's examine the survey data below and explore the rise in SOC 2 examinations and what it means for the service provider industry.

schellman

formerly BrightLine

SOC 2: A QUICK OVERVIEW

The SOC 2 examination focuses on a service provider's system (service offering), and evaluates the service provider's control environment against a set of established and predefined criteria. While a SOC 1 examination is designed to focus on how the service provider's controls impact the financial reporting of a customer organization, a SOC 2 examination looks at operational controls related to a service, and how the service provider's controls meet the pre-defined Trust Services Principles and Criteria around the security, processing integrity, availability, confidentiality, and privacy of a system.

90%
Plan to or currently undergo a SOC 2 examination

58%
Recognize SOC 2 will not satisfy SOC 1 requirements

From our survey respondents, 90 percent indicated that they either plan to or are currently undergoing a SOC 2 examination. Over half (58 percent) of those who indicated they are planning to or are currently undergoing a SOC 2 examination recognized that SOC 2 will not satisfy the requirements of a SOC 1.

This information shows that organizations understand there are different audiences and purposes for SOC 1 and SOC 2 examinations. It also shows that even though a SOC 2 report does not satisfy the financial end of reporting; organizations are using the SOC 2 to inspire confidence in their systems, in ways the SOC 1 was not designed to do.

"

Although there is a demand for a different type of report, organizations are still electing to pursue the SOC 2 examination. Our data indicates that service providers are strategically electing to undergo a SOC 2 examination to give their customers and potential customers additional confidence in their systems. They're accepting the additional cost and expense of doing the SOC 2 despite the understanding that there will remain residual demand from their SOC 1 audience.
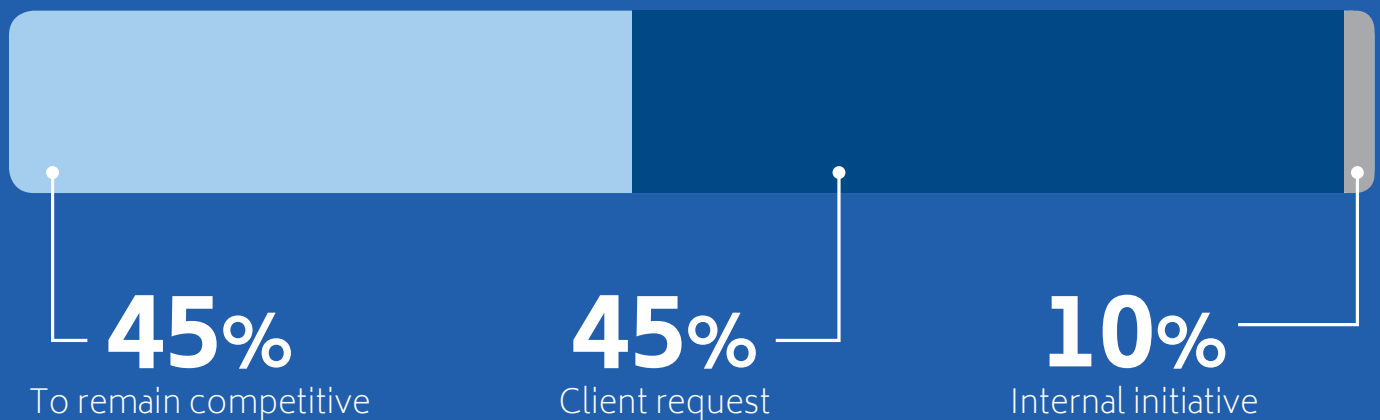
Ryan Buckner, Schellman Attestation Practice Leader

WHAT'S BEHIND
THE INCREASE

Why the Increase in SOC 2?

45%
To remain competitive

45%
Client request

10%
Internal initiative

What's behind the decision to undergo a SOC 2 examination? Forty-five percent of respondents indicated they underwent the examination to stay competitive, and 45 percent said they completed the examination due to client mandates.

The remaining 10 percent of organizations indicated they completed the SOC 2 due to an internal initiative. "These answers clearly indicate that an increasing number of organizations see the value in making their control environment stronger," according to Debbie Zaller, Schellman SOC 2 and SOC 3 Practice Leader.

"

"Organizations are well aware that they have to show their customers that they are serious about their control environment" says Zaller. "A strong security and privacy environment not only will allow an organization to compete in the market, but will build trust and confidence with their customer base."

Debbie Zaller, Schellman SOC 2 and SOC 3 Practice Leader

THE PERCEIVED VALUE OF SOC 2

Whether it's in the form of a client request or an internal initiative, our data shows that almost all of those responding see the value that a SOC 2 examination can provide to their company and their customers.

> "
>
> Organizations know SOC 2 is something they either need to do in response to client demand or something they need to do in order to compete; either way, they're willing to take on that additional effort for the value above and beyond what the SOC 1—or any other type of report—could provide.
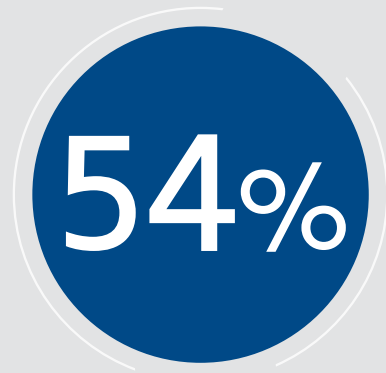
Ryan Buckner, Schellman Attestation Practice Leader

DOING SOC 1 AND SOC 2

87%

Did not drop the SOC 1 for the SOC 2

54%

Had the option to drop SOC 1, but did both examinations

Of those organizations that completed or are planning to complete a SOC 2, 87 percent said they did not or will not drop their SOC 1 examination for the SOC 2.

Of those organizations, 54 percent indicated they had the option to drop SOC 1, but chose to do both examinations.

"The market recognizes that the SOC 1 and SOC 2 are not interchangeable. Organizations recognize that the SOC 1 and SOC 2 can work in concert to address a diversity of clients' needs for assurance. When given the option to drop one or the other, half of them said, 'No thanks, we'll keep them both,'" says Buckner.

A ONE-WAY STREET:
WHAT'S MISSING

While organizations are responding to the demand for the SOC 2, our research found that they are not creating it.

That means these organizations undergoing the SOC 2 aren't demanding the same of their third party partners. Of the 90 percent of companies indicating they planned to or underwent a SOC 2, only 62 percent said they would demand the same of their partners.

"It's almost like it's a one-way expectation," says Buckner. "The company is responding to demand, but they are not creating demand for it on their own. In the same way their customers or potential customers want to know about the security of the service provider's systems, these same service providers should also want to know more about the third parties and vendors they are working with. What we're seeing is that many companies are handing their SOC 2 report off to their consumer or recipient organization, and not asking to see the same of their partners or vendors."

Debbie Zaller, Schellman's SOC 2 and SOC 3 practice leader, thinks more organizations need to ask if their third parties have completed or will complete a SOC 2. "It's an important question. Organizations should be requesting SOC 2s as part of their risk program as well as doing it themselves," she says.

"

If you're being asked to provide SOC examinations and going through the time and energy, why not request it of your vendors and actually read their report? Perform your own analysis and understand the control environment of your vendor. Are they failing objectives? Are they meeting criteria? Have they been improving over time?

These reports can be more than just box-checked efforts. They can actually become valuable vendor management and risk assessment tools – that in turn will improve your internal vendor management processes.

Debbie Zaller, Schellman SOC 2 and SOC 3 Practice Leader

The increase in organizations completing a SOC 1 and a SOC 2 points to another important—and often overlooked—need: **Organizations doing both reports need a vendor that can effectively and efficiently do both for them.**

Schellman is one of the only firms that can conduct both a SOC 1 and SOC 2 examination simultaneously as well as several other complementary regulatory and industry compliance projects, saving your organization and teams valuable time and money.

> "
>
> If you're getting a SOC 2 done, there's at least a chance that you currently or eventually will also need a SOC 1. You might as well find a qualified and experienced vendor that can do both efficiently.
>
> Debbie Zaller, Schellman SOC 2 and SOC 3 Practice Leader

READY TO INSPIRE CONFIDENCE IN YOUR SYSTEMS OR CONTROLS? WE CAN HELP!

Contact us today to schedule a consultation.

schellman
formerly BrightLine