



SOC Considerations and COVID-19

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July 23, 2020

Polling Question #1.



Agenda.

- + Recent AICPA SOC guidance
- + Potential impact of changes on controls due to COVID-19
- + Possible SOC report user expectations



Recent AICPA SOC guidance.

The AICPA released an FAQ surrounding the impact of COVID-19. Topics include:

- + Changes to controls
- + Disclosures related to the effect of COVID-19
- + Remote examination procedures
- + Going concern considerations
- + Subsequent events considerations
- + Management representation letter considerations
- + Subservice organizations

<https://www.aicpa.org/content/dam/aicpa/interestareas/frc/assuranceadvisoryservices/downloadabledocuments/faq-soc-engagements-coronavirus.pdf>

Polling Question #2.



Potential impact of COVID-19 on systems and controls.

The following types of changes to a service organization's operations, processes and workforce should be considered:

- + Implementing a work-from-home policy
- + Restricting access to facilities
- + Reassigning responsibilities between employees and locations
- + Reducing the size of the workforce
- + Increasing the load on internet infrastructure such as VPN systems and firewalls
- + Delaying the implementation of additional processing capacity
- + Delaying the implementation of system changes
- + Delaying subservice organization and vendor risk and controls assessments



Potential impact of COVID-19 on systems and controls.

Regardless of pandemic conditions, controls must operate at an appropriate level. If a control cannot be performed as previously designed, management needs to make sure any changes in design address both original risks and any new or modified risks. Changes could include:

- + Changes in the precision of a control
- + Changes in the evidence that supports the performance of a control
- + Suspension of a control
- + Implementation of new controls and software



Impact on the risk assessment.

Updating your risk assessment is critical to assessing the effectiveness of existing controls and identifying the need for new controls in response to changing threats or vulnerabilities

A few questions to ask:

- + What has changed in our operation?
- + Which of our controls will continue to operate as previously designed regardless of changes to our operations?
- + Which controls are not operating as designed?

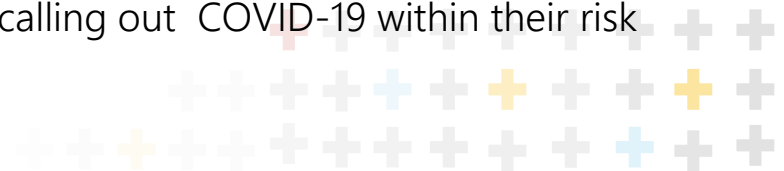


Impact on the risk assessment (continued).

Beginning with risks and controls identified pre-pandemic, consider whether:

- + Controls as designed are less effective due to:
 - + New threats to the functioning of the system or an increase in likelihood of an existing threat occurring before normal operations resume
 - + Vulnerabilities in the system as a result of changes in how the system is used
 - + Elevated risk of fraud or noncompliance with laws or regulations
- + Controls are suspended or are temporarily replaced with substitute controls that are less effective during the response period
- + Controls fail to operate effectively during the period before normal operations resume due to:
 - + Insufficient facilities or infrastructure
 - + Inability to document that controls operate effectively
- + The planned implementation of new controls is delayed, resulting in the failure of controls to be suitably designed

Service organizations should consider specifically calling out COVID-19 within their risk assessment.



Impact on management's evaluation of operating effectiveness.



Management is responsible for having a basis for its assertion that controls are suitably designed and operating effectively

If processes or controls are modified, additional procedures may be necessary to have a basis for management's assertion as a result of:

- + Changes to the system during the period
- + Changes to controls during the period
- + Procedures management planned to perform as a part of its basis that could not be performed
- + Procedures that management performed as part of its basis that were conducted pre-pandemic



Polling Question #3.

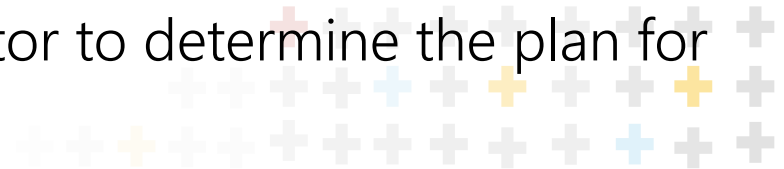


Impact on controls typically required to be performed on-site.

Many organizations continue to operate remotely and have their locations closed to non-essential workers.

- + Anticipate majority of walkthroughs and testing to be performed remotely.
- + Physical security observations will likely be done virtually for review of physical security controls, environmental controls, etc.
- + Organizations should evaluate which controls were historically performed on-site and assess plans for how those walkthroughs will be performed.
- + Evidence may be more difficult to obtain

Coordinate with your service auditor to determine the plan for execution of the procedures.



Impact on management's description of the system .

Consider whether your report should disclose the following:

- + Changes to services provided, locations, applications, and how processes and controls are performed
- + Organizational overview changes such as structure, customers, headcount
- + Effect on the service organization's internal control, including:
 - + Relevant aspects of the control environment
 - + Risk assessment process
 - + Monitoring activities
 - + Significant changes to the design and operation of controls
- + Specific disclosures related to the COVID-19 pandemic, including:
 - + Significant incidents in which control objectives were not achieved for a SOC 1 report, or
 - + Service commitments and system requirements were not achieved for a SOC 2 report



Subservice organization evaluations.

- + Typically subservice organization evaluations lag based on various reporting periods
- + Organizations may need to obtain additional comfort that the controls at subservice organizations haven't changed or deteriorated in a way that impacts the controls at the service organization.
- + Management may need to consider a shift from an inclusive method to the carve-out method to address shortcomings



Addressing going concern.

- + While there is no responsibility to perform going concern procedures in a SOC engagement, service auditors may become aware that the service organization's ability to continue operations has been affected by the pandemic
 - + Management may consider the need for additional disclosures in the system description
- + If management adds additional disclosures about the effect of COVID-19 on its ability to remain in business, expect an additional paragraph in the service auditor's report to draw users' attention to such disclosures



Addressing subsequent events.

- + Expect additional inquiry from the service auditor about whether management is aware of any events or transactions subsequent to the period of time covered by the engagement up to the date of the service auditor's report that have an effect on systems and related controls
- + Evaluation of these events or transactions may require subsequent event disclosure
 - + Management may include in the "Other Information" section of the SOC report
 - + Service auditor may elect to emphasize those effects by adding an additional paragraph to the service auditor's report



Additional management representations?

Be prepared for additions to management representations, possibly to include:

- + Effects of COVID-19 on the service organization, its operations, and technologies used in providing services
- + Any communications to customers and business partners about changes in service level agreements or commitments
- + Disclosure of all changes to systems and related controls due to COVID-19
- + Identification and assessment of new risks arising from changes to systems and related controls
- + Any concerns related to going concern
- + Reasons for changing from the inclusive method to the carve-out method for subservice organizations

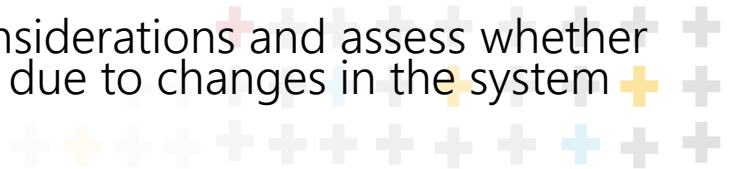


Possible SOC report user expectations.

As a user of SOC reports, it is important to have frequent communication with your critical vendors to discuss whether COVID-19 has significantly impacted their operations or SOC report.

A few items to keep in mind:

- + Review the SOC report for disclosures on any changes to the system, operations or controls as a result of COVID-19
 - + Assess whether these changes impact you or your reliance
- + Review the SOC report for exceptions and expect some organizations may have increased exceptions due to the pandemic
 - + Put enhanced scrutiny around exceptions – could they be indicative of other control issues?
- + Review disclosures surrounding the impact of COVID-19 on subservice providers
- + Review the complementary user entity considerations and assess whether any additional considerations were added due to changes in the system description or controls



Questions?



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