



Quarterly Perspectives: Financial Reporting & Beyond / Q3 2024

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Meet the Presenters From Forvis Mazars A&A Professional Standards Group



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Looking Back



What Has Caught Our Eye

- **Nonprofits:**

- Historic federal funding continues, resulting in increased risk
 - Federal focus on oversight, accountability, and transparency

- **Leases:**

- Sale Leaseback transactions continue to be considered for freeing up cash flow but often fail the accounting tests to qualify
- People caught off guard by determination of who is the accounting owner for Leasehold improvements

- **SOC:**

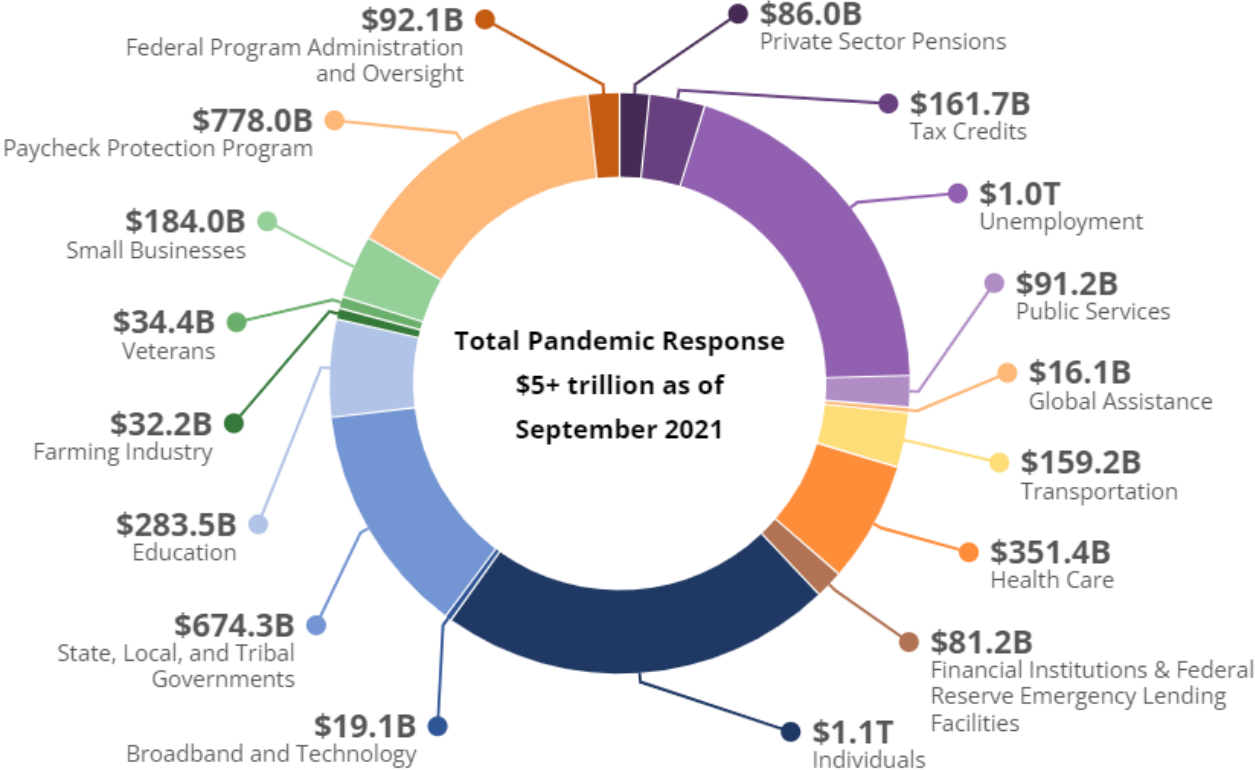
- Organizations not evaluating the proper type of SOC report as part of their financial audit
- Continue to see organizations not mapping Complementary User Entity Controls (CUECs) to controls within their environment
- Since busy season a number of SOC reports have bridge letters greater than 90 days

Here & Now



Federal Oversight of Pandemic Funding

Where did Pandemic Relief Funds Go?



Source: [Pandemic Oversight - Home](#) | [Pandemic Oversight](#)

Federal Oversight of Pandemic Funding

Who's overseeing pandemic funding?

- Pandemic Response Accountability Committee (PRAC)
- IRS
- U.S. Treasury
- Single audits
- Federal agencies

[Back 2 school: We're teaching fraudsters a valuable lesson](#)

Emergency Relief Funds:

Significant Improvements Are Needed to Address Fraud and Improper Payments

IRS enters next stage of Employee Retention Credit work; review indicates vast majority show risk of being improper

Justice Department Announces
Nationwide Coordinated Law
Enforcement Action to Combat COVID-
19 Health Care Fraud

'Biggest fraud in a generation': The looting of the Covid relief plan known as PPP

Federal Oversight of Pandemic Funding

What should my organization be doing to keep pandemic funding?

Document

Document

Document

What Are the Most Common SOC Reports Out There?

	SOC 1	SOC 2
What Is Covered by the Report?	Controls related to financial reporting for user organizations	Controls relevant to security, availability, confidentiality, processing integrity, and/or privacy
Intended Audience	Auditors and management of user organizations (“auditor-to-auditor communication”)	Auditors, stakeholders (e.g., management, business partners, customers), regulators
Report Format	Long form which includes a detailed description of the system and controls	Long form which includes a detailed description of the system and controls

When would you need a SOC report?

- Understanding the nature and significance of the services being offered by the service provider and the effect of such services on the user organization’s internal control environment to provide a basis for the identification and assessment of risks of material misstatements
- Placing reliance on the completeness and accuracy of Information Produced by the Entity (IPE) such as key reports coming from the applications or services provided by the service organization over transaction processing
- Performing Vendor Risk Management (e.g., security or privacy of data managed by the vendor)

What Are the Two Types of SOC Reports?

Type 1

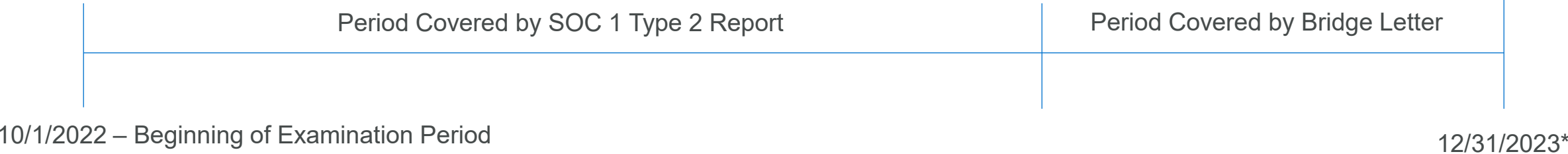
- Not to be confused with a SOC 1, a Type 1 report signifies that the report is only as of a specific point in time
- This type of report includes design and implementation but does not include operating effectiveness of controls
- Example: SOC 1 Type 1 or SOC 2 Type 1

Type 2

- Not to be confused with a SOC 2, a Type 2 report signifies that the report covers the operations of controls over a specified period of time
- This type of report includes design, implementation, and operating effectiveness of controls
- Example: SOC 1 Type 2 or SOC 2 Type 2

SOC Bridge Letters

- Did you receive a **Bridge Letter** along with your SOC reporting package?
- **Bridge Letters** are letters from management of the Service Organization directly to its users to cover the “gap” period between the end of the last specified period of SOC report to whatever time frame is requested by the user.
- The Service Auditor is not involved in the issuance of a Bridge Letter.
- Bridge Letters can be written to cover any period of time since the issuance of the last SOC report; however, common practice is that Bridge Letters covering a **period longer than 90 days are not acceptable** by external auditors that might rely on the SOC Report.



What Should You Be Looking At When Evaluating a SOC Report?

User to Service Provider

- What do you as the User (the company) outsource and how does that compare to the scope of the SOC report(s) received from those Service Providers?
 - ❑ Nature/type of services/processing centers covered
 - ❑ Applications covered and key reports coming from these applications
 - ❑ Period covered by the scope of the report
 - ❑ Unqualified opinion

User Control Considerations

- Are there CUECs that you need to consider to be able to rely on the SOC report?

Subservice Organization to Service Provider

- Is there anything that the Service Provider outsources to a third party and how is this handled in the opinion?

If You Have a Financial Auditor, What Should You Expect When They Evaluate a SOC Report?

What do you as the User (the company) outsource and how does that compare to the scope of the SOC report(s) received from those Service Providers?

- Nature/type of services/processing centers covered
- Applications covered and key reports coming from these applications
 - ❖ **Whether each standard report that you are relying on for completeness & accuracy was identified in the report**
- Period covered by the scope of the report
 - ❖ **If a Bridge Letter was included, the length of period covered by the Bridge Letter**

Are there CUECs that you need to consider to be able to rely on the SOC report?

- ❖ **How you mapped CUECs to specific controls and the applicable operating effectiveness of such controls**

Is the opinion unqualified?

- Is there anything that the Service Provider outsources to a third party and how is this handled in the opinion?
 - ❖ **For complementary subservice organization controls that have been identified (e.g., managed security services and release management), whether you performed a separate SOC evaluation on the subservice organization**

Conversations You Should Be Having



What's on the Horizon?

- Shore up internal control over financial reporting. Remote work, talent shortages and turnover, new technologies, complex transactions, complex accounting decision trees all leading to material misstatements and material weaknesses in internal control.
- Expect continued oversight of federal money. Focus on internal controls of spending funding
- Be prepared to see more SOC reports that are qualified – what do you need to consider when you get a qualified report?
 - Potential impact of the qualified control objective on the integrity of financial transaction processing and what complementary controls you should have in place to address the associated risk

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- [SEC 3Q 2024 – Registrants](#)
- [Accounting Relief Coming for Private Companies & NFPs?](#)
- [Your Guidebook to SOC](#)
- [January 9, 2025 – Quarterly Perspectives: Financial Reporting & Beyond / Q4 2024](#)

Thank you!

Please join us again on January 9, 2025 for the final installment of the 2024 Quarterly Perspective webinar series!

Be on the lookout for the 2025 series dates!

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