Who Audits the Auditor? Why Peer Review Matters in SOC Reporting | Transcript

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Robert Ramsay:

Today with me is Steve Bailey, and we're going to talk about peer reviews. Steve, tell me about peer reviews and why they're so important.

Steve Bailey:

Yeah, Robert, peer reviews are really important for the accounting profession from the standpoint that it's more or less a check on CPA firms and how they're doing as far from an insurance standpoint. So when we do a peer review, we go in and there's certain items in a peer review that we have to review, one of those being SOC reports. So that's a required thing that has to be reviewed as part of a peer review. So think of it more of as a checkup of CPA firms to see how they're doing, and incorporating the SOC practice into that is one of the most important parts of the peer review.

Robert Ramsay:

In your role, you're typically a captain. Is that right? You get to be the captain?

Steve Bailey:

Right, yes. So I would be the team captain on a peer review, which means that I oversee the entire project, the entire peer review, the whole process. Typically, we will have other individuals that are assigned to be part of my team as part of that. So an individual like you, who has SOC expertise, I would bring in to be a part of that team as well. Now, there's a lot of the other things that we do as part of the peer review, other audits, other reviews, compilations, parts of the practice, CPE, monitoring, things of that nature.

Robert Ramsay:

And the captain has the overarching, you said CPE, so you would check to make sure a firm has the proper training for the people doing the work.

Steve Bailey:

Yes, exactly. So in a peer review, when we look at certain engagements, there is required CPE that has to be in place for certain engagements, employee benefit plans, Yellow Book engagements, SOC engagements. So we do look at the partners who work specifically on SOC engagements and we make sure that they have the applicable CPE in their network of CPE that they've done over the past two years, so to make sure that that's there.

Robert Ramsay:

And that's part of how as a profession we make sure that firms that are peer-reviewed are held to a higher standard than someone who just claims to do SOC reporting.

Steve Bailey:

Yes, exactly. Because there have been issues at least in the profession where there's a lot of, I'll call them boutique or smaller CPA firms that are popping up claiming that they will do SOC reports. There've been quality issues. There's been quite a bit of that that we've seen in the profession. So I think the peer review process is extremely important to help vet that, and so that when organizations are going out to look for a SOC report, they can ask that firm to see a copy of their peer review report to see how they stack up and to make sure that they're meeting quality standards.

Robert Ramsay:

And those are available online too, right?

Steve Bailey:

Yes, exactly.

Robert Ramsay:

Very nice. So before hiring someone to do SOC reporting, you should check to make sure they've got a peer review.

Steve Bailey:

Yes, exactly. I would definitely recommend that. Ask the firm, ask them to have a copy of their peer review report, and they should have that available to hand over at any time.

Robert Ramsay:

Somebody's auditing the auditor.

Steve Bailey:

Exactly. That's exactly what a peer review is.

Robert Ramsay:

And that's part of why the CPAs have such high regard in terms of trust in the profession.

Steve Bailey:

Yes, exactly. Exactly.

I guess what I would say to you is, because we do see a lot of these quality issues, as a SOC expert, you've been on a lot of peer reviews with me as a team member, what kind of things do you see as maybe issues or things that you've identified in your peer review practice as well?

Robert Ramsay:

Yeah, good question. We often see a misunderstanding of the importance of what we call materiality, what matters to the reader, what's really important to the security of the system, for example. And so it's one thing to list a bunch of controls and test them and say the results. It's another to understand how important they are to the working of the system or the priorities of, in this B2B case, the customer of the service organization.

Steve Bailey:

And do you see in maybe some of these smaller organizations that do do SOC reports, is there a place that maybe they cut corners a little more than maybe you see in a full-scale SOC?

Robert Ramsay:

You get the impression that the work is not custom to the situation. So cookie cutter might be a phrase where it looks a lot like other reports that come out. And what we try to do is make sure these are as valuable as possible, as useful for the reader to help the company get the ROI, the bang for the buck for their investment in time and energy.