

Question 1 of 6

A CPA firm was engaged to perform a SOC 2® type 2 examination on a service organization for the first time. Two months before the examination, the CPA firm had made recommendations to the service organization's management about how to improve their controls. According to the AICPA Code of Professional Conduct, would this action impair the CPA firm's independence with respect to the service organization?

- A. No, because the service organization was responsible for designing controls. ✓
- B. No, because the service organization paid a fee for the CPA firm's advice.
- C. Yes, because the CPA firm participated in management responsibilities.
- D. Yes, because the CPA firm would be reviewing their own work product.

Explanation:

The **preconditions to accepting an attestation engagement**, as outlined in AT-C 105, require a CPA to be **independent of the responsible party**. The AICPA Code of Professional Conduct's general "Independence Rule," found in ET Section 1.200.001, states that CPAs must be independent **in both fact and appearance**. Service auditors must consider whether a third party would believe that there is a threat to independence.

Management participation and self-review are **two threats to independence**. A **management participation** threat occurs when a CPA designs, implements, or maintains internal controls or performs ongoing monitoring of internal controls. A **self-review** threat exists when a CPA firm evaluates the results of a previous judgment made or service it performed. In this scenario, neither threat exists because the CPA firm only provided recommendations for management's consideration. Management decided what action, if any, to take based on the CPA's recommendations.

(Choice B) The payment of a fee increases the likelihood of a threat to a CPA's independence. However, the determining factor of the existence of a threat is the type of service rendered to the client.

(Choices C and D) As the CPA firm provided only a recommendation, this scenario would neither give rise to a management participation threat nor a self-review threat. Management was still responsible for designing, implementing, and maintaining controls based on their own judgment. During the SOC 2® type 2 examination, the CPA firm would review management's controls.

Things to remember:

A CPA who merely provides recommendations for management's consideration may perform a SOC attestation examination as long as it is management who designs, implements, and monitors the service organization's controls.

Question 2 of 6

Under the AICPA Statements on Standards for Attestation Engagements, a service auditor performing a SOC for Service Organizations engagement must always be independent of which of the following types of organizations?

	<u>User entities</u>	<u>Subservice organizations</u>
A.	Yes	Yes
B.	Yes	No
C.	No	Yes
D.	No	No

✓

Explanation:

Service auditor independence in SOC for Service Organizations engagements	
Organization	Auditor must be independent?
Service organization	Yes
Subservice organization	Only if inclusive method is used
User entity	No

SOC for Service Organizations engagements (ie, SOC 1®, SOC 2®, SOC 3®) are assertion-based examinations in which a CPA expresses a written opinion (ie, attests) about whether a service organization's:

- description of their system and related controls (ie, underlying subject matter) is in accordance with (or based on) the criteria in all material respects, or
- assertion is fairly stated in all material respects.

Since their opinion provides reasonable assurance, service auditors must be independent of the service organization. The service auditor does not need to be independent of user entities, report receivers who are not examined. Whether the service auditor must be independent of any subservice organizations depends on whether the subservice organization's objectives and controls are included in the

description of the service organization's system under the inclusive method or excluded under the carve-out method.

Under the inclusive method, the subservice organization makes an assertion, and the service auditor expresses an opinion, like the service organization. The service auditor must be independent of the service organization and all included subservice organizations. Service auditors do not examine or express an opinion on carved-out subservice organizations and, therefore, do not need to be independent of them.

Things to remember:

Service auditors performing SOC for Service Organization engagements (ie, SOC 1®, SOC 2®, SOC 3®) must be independent of service organizations and all subservice organizations included in the examination under the inclusive method. Service auditors do not need to be independent of user entities or any carved-out subservice organizations.

Question 3 of 6

Which of the following statements is correct regarding the application of the AICPA Code of Professional Conduct independence rules for SOC 1® engagements performed in accordance with the *Statements on Standards for Attestation Engagements*?

- A. The service auditor does **not** need to be independent of all responsible parties if there is more than one responsible party.
- B. The service auditor does **not** need to be independent of the engaging party if the engaging party is not a responsible party. ✓**
- C. The service auditor must be independent of the engaging party and all responsible parties but **not** of intended users.
- D. The service auditor must be independent of all engaging parties, responsible parties, and intended users.

Explanation:

AICPA Code of Professional Conduct: Application of the independence rule to engagements performed in accordance with Statements on Standards for Attestation Engagements (SSAEs)			
Party	Definition	SOC example	Independence required?
Engaging party	Party that hires the practitioner to perform attestation engagement	Responsible party, governmental body or agency, intended user, or other third party	Required only when engaging party is also a responsible party
Responsible party	Party responsible for underlying subject matter or providing an assertion	Service and subservice organizations reported using the inclusive method	Always required
Intended user(s)	Those permitted to use the practitioner's written report	Varies by type of SOC examination (eg, user entities, user auditors, business partners)	Not required
Other third party	Party that is neither a responsible party nor	Subservice organizations	Not required

	subject to the practitioner's procedures	reported using the carve-out method	
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Practitioners who perform attestation engagements must comply with the **AICPA Code of Professional Conduct**. ET Section 1.297.010 applies the **independence standards** to engagements performed under the *Statements on Standards for Attestation Engagements* (SSAEs), such as SOC examinations.

According to AT-C 105, all **attestation engagements** have an engaging party, a responsible party, the practitioner, and intended users. The engaging party is the party who hires the practitioner (ie, service auditor in a SOC 1®). The engaging party might also be a responsible party (eg, the service organization) or might not (eg, intended user, other third party). According to ET Section 1.297.010, the **practitioner needs to be independent of the engaging party only if that party is also a responsible party under examination**.

(Choices A, C, and D) The service auditor must be independent of *all* responsible parties (eg, the service organization, any inclusive subservice organizations). The independence requirements for an engaging party depend on whether that party is also a responsible party. The service auditor does not need to be independent of intended users who are not responsible parties.

Things to remember:

Service auditors must be independent of *all* responsible parties who are evaluated in an examination. The service auditor need not be independent of any party who is not a responsible party.

Question 4 of 6

A bank outsources the processing of its mortgage loans to a third-party loan servicer. To receive assurance regarding the effect of the loan servicer's system on the bank's internal control over financial reporting, the bank engaged a CPA firm to perform a SOC 1® engagement. Under these circumstances, the CPA firm must be independent of the

- | | <u>Bank</u> | <u>Loan Servicer</u> |
|----|-------------|----------------------|
| A. | No | No |
| B. | No | Yes |
| C. | Yes | No |
| D. | Yes | Yes |

Explanation:

Service auditor independence in SOC for Service Organizations engagements	
Organization	Auditor must be independent?
Service organization	Yes
Subservice organization	Only if inclusive method is used
User entity	No

CPAs offering SOC examination services must adhere to **professional and ethical standards** (eg, the AICPA Code of Professional Conduct). **Independence** means having an objective mindset without perceived or actual conflicts of interest. CPAs must be independent of responsible parties (eg, the service organization, any subservice organization presented in the report under the inclusive method). However, they do not need to be independent of carved-out subservice organizations or user entities who are not responsible parties.

In this scenario, the loan servicer is the service organization, and the bank is the user entity that engaged the CPA firm. The firm **must be independent** of the **loan servicer** because **that is** the **responsible** party whose system and controls are being evaluated in the SOC 1® engagement. Although the bank engaged the CPA firm (ie, is the engaging party), it is **not a responsible party** (ie, a party making an assertion about the

subject matter) and is not examined. Therefore, **independence from the bank is not required.**

(Choice A) The loan servicer is the responsible party making an assertion about the subject matter, so the CPA must be independent of the loan servicer.

(Choices C and D) The bank is only an engaging party and is not examined. Therefore, the CPA does not need to be independent of the bank.

Things to remember:

In a SOC 1® engagement, CPAs must be independent of any responsible parties (eg, the service organization, any subservice organization presented in the report under the inclusive method). However, they do not need to be independent of the engaging party if that party is not a responsible party.

Question 5 of 6

Which of the following circumstances would impair the independence of a service auditor performing a SOC 2® engagement?

- A. The audit firm holds a material, direct financial interest in one of the user entities of the service organization.
- B. The audit firm provides consulting services to design the service organization's software as a service (SaaS) application. ✓**
- C. The service auditor performed a SOC readiness assessment of the service organization in the prior year.
- D. The service auditor's spouse is the CIO of a subservice organization presented under the carve-out method.

Explanation:



CPAs offering SOC examination services must adhere to professional and ethical standards (eg, the AICPA Code of Professional Conduct). CPAs must be independent, in both fact and appearance, when performing a SOC examination. Independence means having an objective mindset without perceived or actual conflicts of interest. The Code identifies threats to auditor independence.

A **management participation threat** to independence exists when a **service auditor performs management responsibilities** for a **service organization**. If the audit firm performing a SOC 2® engagement also provides consulting services to **design the application subject** to the **audit** procedures, then the firm's auditors are auditing their own work, **impairing** their **independence**.

(Choices A and D) Management of the subservice organization presented under the carve-out method and user entities management do not make any assertions in a SOC 2® engagement. Therefore, the independence rules do not apply to the service auditors about such entities.

(Choice C) Before undergoing a SOC examination, a company may hire CPAs to perform a SOC readiness assessment. As long as the CPAs have not implemented their own recommendations and do not function as management of the service organization, they can perform a SOC 2® examination.

Things to remember:

Service auditors must be independent of the service organization and any inclusive subservice organizations. Participation in implementing or executing controls on behalf of the organization would impair this independence. However, service auditors do not need to be independent of user entities or carved-out subservice organizations.

Question 6 of 6

A service auditor has been engaged to perform a SOC 1® engagement. During the auditor's acceptance procedures, it is discovered that the auditor is not independent with respect to the service organization's primary user entity. What action should the auditor take regarding the SOC engagement?

- A. Accept the engagement and perform additional procedures to compensate for the lack of independence.
- B. Accept the engagement because independence from user entities is not required in a SOC 1® engagement. ✓**
- C. Decline the engagement and declare a lack of independence to the service organization and the primary user entity.
- D. Decline the engagement because lack of independence cannot be mitigated with additional procedures.

Explanation:

Service auditor independence in SOC for Service Organizations engagements	
Organization	Auditor must be independent?
Service organization	Yes
Subservice organization	Only if inclusive method is used
User entity	No

SOC 1® reports provide assurance about a service organization's controls relevant to user entities' financial reporting. Because all SOC engagements require a **service auditor** to attest to claims made by the responsible party, the auditor is required to be **independent of the service organization** and any **subservice organizations** presented **using the inclusive method**.

A service organization may provide services relevant to financial reporting of thousands of user entities. Because a service auditor performing a SOC engagement does not examine or attest to the controls of user entities, there is **no** need for **independence from user entities**.

(Choices A, C, and D) Because there is no need for the service auditor to be independent of user entities, there is no reason for the auditor to decline the engagement or to perform any additional compensatory procedures.

Things to remember:

Service auditors performing SOC engagements should be independent of the service

organization and any subservice organizations presented using the inclusive method. Service auditors do not need to be independent of user entities.
